A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces of British Columbia, Alberta, Manitoba and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions.

PRELIMINARY PROSPECTUS

New Issue August 2, 2018

CLS HOLDINGS USA, INC.

30,421,670 Common Shares and 30,421,670 Warrants
issuable upon deemed exercise of 30,421,670 Special Warrants

This prospectus (the "**Prospectus**") is being filed by CLS Holdings USA, Inc. ("**we**", "**us**", "**CLSH**", or the "**Company**") to qualify the distribution of 30,421,670 units (the "**Units**") of the Company, each Unit being comprised of one share of common stock in the capital of the Company (a "**Unit Share**") and one common stock purchase warrant of the Company (a "**Warrant**") upon the deemed exercise of 30,421,670 special warrants (the "**Special Warrants**") of the Company consisting of 28,973,019 Special Warrants issued under the Offering (as defined below) (the "**Offering Special Warrants**") and 1,448,651 Special Warrants issued to the Agent (as defined below) comprising the corporate finance fee under the Agency Agreement (as defined below) (the "**Corporate Finance Fee Special Warrants**") The Special Warrants were issued on June 20, 2018 (the "**Closing Date**") to purchasers resident in British Columbia, Alberta, Manitoba and Ontario (the "**Qualifying Jurisdictions**") on a private placement basis at a price of CAD$0.45 per Special Warrant (the "**Offering Price**"), for aggregate gross proceeds to the Company of CAD$13,037,859 (the "**Offering**"). The Special Warrants were issued pursuant to the terms of a special warrant indenture dated June 20, 2018 (the "**Special Warrant Indenture**") between the Company and Odyssey Trust Company, as special warrant agent thereunder (the "**Special Warrant Agent**"), and an agency agreement dated June 20, 2018 (the "**Agency Agreement**") between the Company and Canaccord Genuity Corp, as sole bookrunner and agent (the "**Agent**"). The Offering Price and other terms of the Offering were determined by arm's length negotiations between the Company and the Agent. See "*Plan of Distribution*".

The Warrants will be issued pursuant to the terms of a warrant indenture dated June 20, 2018 (the "**Warrant Indenture**") between the Company and Odyssey Trust Company, as warrant agent thereunder (the "**Warrant Agent**"). Each Warrant entitles the holder thereof to purchase one share of common stock in the capital of the Company (a "**Warrant Share**") at a price of CAD$0.65 per Warrant Share for a period of 36 months following the date the common stock of the Company are listed on a recognized Canadian stock exchange (the "**Listing Date**"), subject to adjustment in certain events as set out in the Warrant Indenture. See "*Description of Securities Being Distributed*".

The outstanding shares of common stock of the Company (the "**Common Shares**") are listed for trading on the OTQB Venture Market ("**OTCQB**") under the symbol "CLSH". On June 19, 2018, the last trading day before the closing of the Offering, the closing price of the Common Shares on the OTCQB was $0.65. The Company has applied to list the Common Shares on the Canadian Stock Exchange (the "**CSE**"). The listing of the Common Shares will be subject to the Company fulfilling all the listing requirements of the CSE, which cannot be guaranteed.

This Prospectus also qualifies the distribution of 2,317,842 compensation broker warrants of the Company ("Broker Warrants"), issued to the Agent upon closing of the Offering. Each Broker Warrant is exercisable to acquire one Common Share and one Warrant, subject to adjustment in certain circumstances, at the Offering Price for a period of 36 months from the Listing Date. See "*Plan of Distribution*".

The Special Warrants are not available for purchase pursuant to this Prospectus and no additional funds are to be received by the Company from the distribution of the Units upon the deemed exercise of the Special Warrants.

There is no market through which the Warrants may be sold, and purchasers may not be able to resell the Warrants acquired pursuant to the deemed exercise of the Special Warrants. This may affect the pricing of the Warrants in the secondary markets, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulation. See "Risk Factors".

	Price to Subscribers	**Agent's Fee**(1)	**Net Proceeds to Company**(2)
Per Special Warrant:	CAD$0.45	CAD$0.04(5)	CAD$0.41(3)
Total:	CAD$13,037,859	CAD$1,046,029	CAD$11,991,830

Notes:
(1) The Agent was paid a cash fee of 8.0% of the gross proceeds from the Offering (the "**Agent's Fee**") and was paid a corporate finance fee of $651,893, all of which was paid in Corporate Finance Fee Special Warrants (totaling 1,448,651 Corporate Finance Fee Special Warrants) on closing of the Offering. The Agent was also granted 2,317,842 Broker Warrants, representing 8.0% of the Offering Special Warrants sold under the Offering. "*Plan of Distribution*".
(2) After deducting the Agent's Fee, but before deducting the expenses of the Offering and the qualification for distribution of the Unit Shares and Warrants. The expenses of the Offering and the qualification for distribution of the Unit Shares and Warrants are estimated to be $750,000, and will be paid by the Company out of the proceeds of the Offering.
(3) Amounts are rounded to the nearest whole cent.

Agent's Positions	**Number of Additional Securities**	**Exercise Period**	**Exercise Price**
Broker Warrants(1)	2,317,842 Units	Exercisable on or before the day that is thirty-six (36) months from the Listing Date	CAD$0.45 per Unit
Corporate Finance Fee Special Warrants(1)	1,448,651 Units	Automatically converted on the date that is the earlier of: (i) the fifth business day after the date a receipt is issued for a final prospectus qualifying the distribution of the Unit Shares and the Warrants by the securities regulatory authorities in the provinces of British Columbia, Alberta, Manitoba and Ontario; and (ii) October 28, 2018.	Nil
Total Securities under option to Agent	3,755,493 Units	See above	See above

Notes:
(1) This Prospectus qualifies the grant of the Broker Warrants and the Corporate Finance Fee Special Warrants. See "*Plan of Distribution*".

Each Special Warrant will be deemed to be automatically exercised on behalf of, and without any further action or payment required on the part of, the holder thereof at 5:00 p.m. (Toronto time) on the date (the "**Deemed Exercise Date**") that is the earlier of: (i) the fifth business day after the date a receipt (a "**Receipt**") is issued for a final prospectus (the "**Qualification Date**") qualifying the distribution of the Unit Shares and the Warrants by the securities regulatory authorities in the Qualifying Jurisdictions; and (ii) October 28, 2018 (the "**Time of Expiry**"). See "*Plan of Distribution*" and "*Description of Securities Being Distributed*".

The Company has not authorized anyone to provide purchasers with information different from that contained or incorporated by reference in this Prospectus. An investment in the securities of the Company is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this Prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See "*Risk Factors*". Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.

Unless otherwise indicated, all references to dollar amounts in this Prospectus are to United States dollars. Readers should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover page of this Prospectus.

Reference to "United States" or "U.S." are references to the United States of America.

The Company will use its best efforts to obtain a final Receipt from the Securities Commissions for this Prospectus before August 20, 2018. In the event the Company has not received a final Receipt from the Securities Commissions for this Prospectus before August 20, 2018, each unexercised Special Warrant will, at the Time of Expiry, be exercised such that the holder will receive, for no additional consideration, 1.1 Units (instead of one Unit). See "*Plan of Distribution*".

Investors are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of the Special Warrants, the Unit Shares and the Warrants, including the Canadian federal income tax consequences applicable to a foreign controlled Canadian company that acquires the Special Warrants, the Unit Shares or the Warrants.

Certain legal matters in connection with the Offering and this Prospectus have been or will be reviewed on behalf of the Company by Cassels Brock & Blackwell LLP and on behalf of the Agent by Bennett Jones LLP.

The Company is neither a "connected issuer" nor a "related issuer" of the Agent as defined in National Instrument 33-105 – *Underwriting Conflicts*.

No additional proceeds will be received by the Company, and no commission or fee will be payable by the Company to the Agent, in connection with the issuance of the Units upon exercise or deemed exercise of the Special Warrants.

The Company is incorporated under the laws of a foreign jurisdiction, and all of the directors and officers reside outside of Canada. Each of the Company, its directors and officers have appointed Cassels Brock & Blackwell LLP, Suite 2100 Scotia Plaza, 40 King Street West, Toronto, Ontario M5H 3C2, as agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process.

This Prospectus qualifies the distribution of securities of an entity that derives all of its revenues from the cannabis industry in certain U.S. states, which industry is illegal under U.S. Federal Law. CLSH is directly involved in the cannabis industry through the production, cultivation and sale of medical and adult-use cannabis in the State of Nevada, which has regulated such activity.

The cultivation, sale and use of cannabis is illegal under federal law pursuant to the U.S. Controlled Substance Act of 1970 (the "Controlled Substance Act"). Under the Controlled Substance Act, the policies and regulations of the United States Federal Government and its agencies are that cannabis has no medical benefit and a range of activities including cultivation and the personal use of cannabis is prohibited. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and in case of conflict between federal and state law, the federal law shall apply.

Despite the current state of the federal law and the Controlled Substance Act, the states of California, Nevada, Massachusetts, Maine, Washington, Oregon, Colorado, Vermont and Alaska, and the District of Columbia, have legalized recreational use of cannabis. Massachusetts and Maine have not yet begun recreational cannabis commercial operations. In early 2018, Vermont became the first state to legalize recreational cannabis by passage in a state legislature, but does not allow commercial sales of recreational cannabis. Although the District of Columbia voters passed a ballot initiative in November 2014, no commercial recreational operations exist because of a prohibition on using funds for regulation within a federal appropriations amendment to local District spending powers.

In addition, over half of the U.S. states have enacted legislation to legalize and regulate the sale and use of medical cannabis, while other states have legalized and regulate the sale and use of medical cannabis with strict limits on the levels of THC.

The Company's objective is to capitalize on the opportunities presented as a result of the changing regulatory environment governing the cannabis industry in the United States and Canada. Accordingly, there are a number of significant risks associated with the business of the Company. Unless and until the United States Congress amends the Controlled Substance Act with respect to medical and/or adult-use cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, and the business of CLSH or one or more of CLSH's subsidiaries may be deemed to be producing, cultivating, extracting or dispensing cannabis in violation of federal law in the United States.

For these reasons, the Company's involvement in the United States cannabis market may subject the Company to heightened scrutiny by regulators, stock exchanges, clearing agencies and other Canadian authorities. There are a number of significant risks associated with the business of the Company. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the U.S. or any other jurisdiction. See section entitled "*Risk Factors*" and "*Enforcement of United States Federal Laws*".

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GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise "we", "us", "our", "CLSH" or the "Company" refer to CLS Holdings USA, Inc. and its direct and indirect subsidiaries.

Certain capitalized and other terms and phrases used in this Prospectus are defined in the "Glossary of Terms" beginning on page 73.

References to "management" in this Prospectus means the senior officers of the Company and/or its operating subsidiaries, as the case may be. See "Directors and Executive Officers". Any statements in this Prospectus made by or on behalf of management are made in such persons' capacities as officers of the Company and not in their personal capacities.

Prospective purchasers should rely only on the information contained in this Prospectus. We have not, and the Agent has not, authorized any other person to provide prospective purchasers with additional or different information. If anyone provides prospective purchasers with additional or different or inconsistent information, including information or statements in media articles about the Company, prospective purchasers should not rely on it. The Company is not, and the Agent is not, making an offer to sell or seeking offers to buy Common Shares or Warrants in any jurisdiction where the offer or sale is not permitted. Prospective purchasers should assume that the information appearing in this Prospectus is accurate only as at its date, regardless of its time of delivery or of any distribution of Units. The Company's business, financial conditions, results of operations and prospects may have changed since that date.

The Company presents its Consolidated Financial Statements (as defined below) in United States dollars.

In accordance with the Canadian Securities Administrators ("**CSA**") Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities* ("**Staff Notice 51-352**"), this Prospectus contains a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved, either on its own or through its subsidiaries. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. See "*United States Regulatory Environment*".

FINANCIAL STATEMENT PRESENTATION IN THIS PROSPECTUS

The following financial statements (the "**Consolidated Financial Statements**"), prepared in accordance with U.S. GAAP, have been included in this Prospectus:

(a) the interim financial statements of the Company as at and for the three and nine month periods ended February 28, 2018 and 2017;

(b) the audited annual financial statements of the Company for the fiscal years ended May 31, 2017, May 31, 2016 and May 31, 2015;

(c) the interim financial statements of Alternative Solutions, LLC ("**Alternative Solutions**") as at and for the three month periods ended March 31, 2018 and 2017;

(d) the audited consolidated financial statements of Alternative Solutions for the years ended December 31, 2017 and December 31, 2016; and

(e) pro forma financial information of the Company and Alternative Solutions for the 9 month period ending February 28, 2018 and the 12 month period ended May 31, 2017.

FORWARD-LOOKING INFORMATION

This Prospectus contains "forward-looking information" within the meaning of applicable Canadian securities legislation, which is also referred to as "forward-looking statements" that relate to the Company's current expectations and views of future events. The forward-looking information is contained principally in the sections entitled "Prospectus Summary", "Our Business", "Management's Discussion and Analysis" and "Risk Factors".

In some cases, the forward-looking information can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "predict" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking information. The Company has based this forward-looking information on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. This forward-looking information includes, among other things, information and statements relating to:

- the Company's expectations regarding its revenue, expenses and operations
- the Company's anticipated cash needs, its needs for additional financing, changes to its dividend policies
- the Company's intention to grow the business and its operations, including the addition of retail stores, grow operation expansion and the Greenhouse Expansion
- the Company's anticipated phases and timing of the expansion at the Warehouse Facility and the Greenhouse Expansion and the producion capacity thereof
- the expected growth in the number of consumers using the Company's products
- the expected growth of the Cannabis industry in Nevada and in the U.S.
- medical benefits, viability, safety, efficacy and dosing of cannabis
- expectations with respect to future production costs and capacity
- expectations with respect to the renewal and/or extension of the Company's licenses
- expectations with respect to the Company's plan to apply for additional retail store licenses
- expectations with respect to the effects the Company's recently awarded patent will have on costs and revenues
- market reception of the Company's current product offerings and other new delivery mechanisms produced by the Company for use by consumers
- the Company's competitive position and the regulatory environment in which the Company operates
- any commentary related to the legalization of medical or recreational cannabis and the timing related to such commentary or legalization

Forward-looking information is based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying this information is reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with this forward-looking information. Given these risks, uncertainties and assumptions, prospective investors should not place undue reliance on this forward-looking information. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including those listed under "Risk Factors", which include:

- ongoing compliance with regulatory requirements relating to our business
- changes in laws, regulations and guidelines relating to our business
- risk of prosecution of cannabis business at the federal level in the U.S. due to ambiguity of law in relation to medical cannabis and cannabis business
- reliance on current research regarding the medical benefits, viability, safety, efficacy and dosing of cannabis
- a history of losses

- failure or delay in grow the business and its operations, including the addition of retail stores, grow operation expansion and the Greenhouse Expansion
- failure or delay in the anticipated phases and timing of the expansion at the Warehouse Facility and the Greenhouse Expansion and a consequently reduced producion capacity
- reliance on Management and loss of members of Management or other key personnel or an inability to attract new management team members
- inability to raise financing to fund on-going operations, capital expenditures or acquisitions
- inability to realize growth targets
- requirement of additional financing
- competition in our industry
- inability to acquire and retain new clients
- inability to develop new technologies and products and the obsolescence of existing technologies and products
- vulnerability to rising energy costs
- vulnerability to increasing costs and obligations related to investment in infrastructure, growth and regulatory compliance
- regulatory approval of the Oasis Acquisition
- dependence on third party transportation services to deliver our products
- unfavorable publicity or consumer perception
- product liability claims and product recalls
- reliance on key inputs and their related costs
- dependence on suppliers and skilled labour
- difficulty associated with forecasting demand for products
- operating risk and insurance coverage
- inability to manage growth
- conflicts of interest among our officers and directors
- environmental regulations and risks
- managing damage to our reputation and third party reputational risks
- inability to adequately protect the Company's intellectual property due to Cannabis being illegal under U.S. federal law
- potential reclassification/re-categorization of cannabis as a controlled substance in the U.S.
- changes to safety, health and environmental regulations
- exposure to information systems security threats and breaches
- management of additional regulatory burdens
- volatility in the market price for the Common Shares
- potential imposition of additional sales practice requirements by the SEC
- no dividends for the foreseeable future
- future sales of Common Shares by existing shareholders causing the market price for the Common Shares to fall
- the issuance of Common Shares in the future causing dilution

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking information proves incorrect, actual results might vary materially from those anticipated in the forward-looking information.

Forward-looking information in this Prospectus is provided as of the date of this Prospectus, and we disclaim any obligation to update any forward-looking information, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, potential investors should not place undue reliance on forward-looking information.

MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this Prospectus concerning the Company's industry and the markets in which it operates, including its general expectations and market position, market opportunities and market share, is based on information from independent industry organizations, other third-party sources (including industry publications, surveys and forecasts) and management studies and estimates.

Unless otherwise indicated, the Company's estimates are derived from publicly available information released by independent industry analysts and third-party sources as well as data from the Company's internal research, and include assumptions made by the Company which it believes to be reasonable based on its knowledge of the Company's industry and markets. The Company's internal research and assumptions have not been verified by any independent source, and the Company has not independently verified any third-party information. While the Company believes the market position, market opportunity and market share information included in this Prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of the Company's future performance and the future performance of the industry and markets in which it operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the heading "Forward-Looking Statements" and "Risk Factors".

PROSPECTUS SUMMARY

The following is a summary of this Prospectus and should be read together with the more detailed information and financial data and statements contained elsewhere in this Prospectus. Certain capitalized terms and phrases used in this Prospectus are defined in the "Glossary of Terms" beginning on page 73.

OUR BUSINESS

Overview

The Company owns 100% of Alternative Solutions, a Nevada-based holding company that owns three separate entities with licenses to operate four different types of cannabis businesses within the State of Nevada: Serenity Wellness Center, LLC dba Oasis Cannabis; Serenity Wellness Growers, LLC dba City Trees Fresh Cannabis Cultivation Wholesale; and Serenity Wellness Products, LLC dba City Trees Fresh Cannabis Production Wholesale. Oasis currently operates a retail marijuana dispensary within walking distance to the Las Vegas Strip. City Trees Cultivation and City Trees Production currently operate a small-scale cultivation and product manufacturing facility, respectively, as well as a wholesale distribution operation in North Las Vegas.

Oasis' retail dispensary is a single location operation in Nevada. It intends to apply for several additional retail store licenses in September 2018 when the Nevada Department of Taxation, its primary regulator, opens the application period. The existing location, which is easily accessible by tourists, is currently open 24 hours per day for walk-in customers and in-store pickup. It also delivers cannabis to residents between the hours of 10:00 AM and 8:00 PM. The central location provides logistical convenience for delivery to all parts of the Las Vegas valley.

City Trees' wholesale operations began sales to third parties in August 2017. It had made sales to over 25 external customers by Q2 2018. Its existing product line includes vaporizers, tinctures, capsules, and concentrates. Raw materials for manufacturing are all sourced from third parties so there is a significant opportunity to capture additional margin after construction is completed on the Greenhouse Expansion (as defined below). City Trees currently occupies 1,150 square feet in a 22,000 square feet warehouse. Management expects the facility to produce over 500 pounds of cannabis per month when it is operating at capacity. City Trees plans to use state of the art LED grow lights to dramatically reduce energy costs from what they would be with conventional methods. The lights will be used with a vertical racking system that can accommodate up to three tiers of cannabis plants. This method increases the overall size of the growth canopy that can be placed within a single building. The warehouse also has an approximately 34,000 square feet enclosed yard that can be used for a greenhouse. The Greenhouse Expansion is planned to commence in late 2019. It will further reduce raw materials and manufacturing costs by using mostly sunlight instead of electricity. See "*Our Business*".

History

The Company was initially incorporated on March 31, 2011 as Adelt Design, Inc. under Chapter 78 of the Nevada Revised Statutes. On April 29, 2015, the Company entered into a merger agreement with CLS Labs and a newly-formed, wholly-owned subsidiary and effected the Merger. Upon the consummation of the Merger, the separate existence of the wholly-owned subsidiary ceased and CLS Labs, the surviving corporation in the Merger, became a wholly owned subsidiary of the Company, with the Company acquiring the stock of CLS Labs, abandoning its previous business, and adopting the existing business plan and operations of CLS Labs.

Since 2014, one of the founders of CLS Labs has been developing a proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. Recently, the Company began pursuing other revenue producing opportunities, which resulted in the Acquisition. See "*History*".

2018 Special Warrant Financing

On June 20, 2018, the Company closed the Special Warrant Offering for aggregate gross proceeds of CAD$13,037,859. Canaccord Genuity Corp. acted as the sole agent and sole bookrunner in connection with the Offering. Pursuant to the Offering, the Company issued 28,973,019 Special Warrants, at a price of CAD$0.45 per Special Warrant. Each Special Warrant is automatically exercisable, for no additional consideration, into Units on the earlier of: (i) the date that is five business days following the date on which the Company obtains a Receipt from the Securities Commissions for a (final) prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants, and (ii) October 28, 2018. See "*History – 2018 Special Warrant Financing*".

Acquisition of Alternative Solutions

On June 27, 2018, the Company completed the purchase of all of the membership interests in Alternative Solutions and the Oasis Subsidiaries from the members of such entities (other than Alternative Solutions). The closing occurred pursuant to a Membership Interest Purchase Agreement entered into between the Company and Alternative Solutions on December 4, 2017, as amended. Pursuant to the Acquisition Agreement, the Company acquired all of the membership interests in Alternative Solutions, the parent of the Oasis LLCs, from its members, and the membership interests in the Oasis Subsidiaries owned by members other than Alternative Solutions. See "*History – Acquisition of Alternative Solutions*".

Our Operations and Products

Dispensary Operations

Oasis opened as a medical cannabis dispensary in 2015 and began retail sales to adults over the age of 21 on July 1, 2017. Oasis is a top retail cannabis destinations in Nevada and has earned a reputation for its core values and unique customer experience. Customers and patients can browse the selection of inventory in a display and ask questions to qualified staff with minimal wait times. Automated payments allow for safety, convenience, and scalability. See "*Our Business – Dispensary Operations*".

Cultivation, Production & Wholesale Sales Operations

City Trees wholesale operations primarily consists of purchasing finished distilled cannabis oil from third party vendors and formulating it into a variety of finished products for sales and distribution to retail cannabis stores and medical dispensaries throughout Nevada.

The vaporizer and concentrate product line of City Trees consists of proprietary blends of cannabis oil and terpenes filled into custom branded City Trees vaporizers that utilize ceramic heating technology to deliver clean, even heat without using a wick like most traditional vaporizers. The product line of capsules is known as City Caps and includes CBD and THC blends in ratios of 10 to 1, 4 to 1, and 1 to 4. The blends are named CBD, Rise, and Rest, respectively. The recently introduced line of tinctures include a 20 to 1, 10 to 1, and a 1 to 1 CBD to THC ratio as well as a THC only version. See "*Our Business – Cultivation, Production and Wholesale Sales Operations*" and "*Our Business – Product Line*".

Listing

The Company's Common Shares trade on the OTCQB under the symbol "CLSH". As an OTCQB-listed issuer, the Company is subject to the disclosure requirements of Regulation 13A under the Securities Exchange Act of 1934, as amended, which requires the Company to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. Copies of these documents are available on the Company's EDGAR profile at www.sec.gov. See "*Name, Incorporation and Overview*".

The Company has applied to list the Common Shares on the CSE. The listing of the Common Shares will be subject to the Company fulfilling all the listing requirements of the CSE, which cannot be guaranteed. See "*Plan of Distribution*".

United States Regulatory Environment

In accordance with the CSA Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*, this Prospectus contains a discussion of the current federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved either on its own or through its subsidiaries. In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess this disclosure, and any related risks, on an ongoing basis and the same will be supplemented, amended and communicated to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. See "*United States Regulatory Environment*".

Use of Proceeds

The proceeds of the Offering were used to fund part of the cash consideration for the acquisition of Alternative Solutions, which owns the outstanding equity interests in the Oasis Subsidiaries. Upon completion of the Acquisition, Alternative Solutions became a wholly-owned subsidiary of the Company. The remainder of the proceeds of the Offering will be used for general working capital. See "*Our Business*" and "*Use of Proceeds*".

Risk Factors

An investment in the Common Shares is speculative and involves a high degree of risk. Prospective purchasers should carefully consider the information set out under "*Risk Factors*" and the other information in this Prospectus before purchasing Common Shares.

Financial Information

Below is the pro forma financial information of the Company and Alternative Solutions for the nine month period ending February 28, 2018 and the 12 month period ended May 31, 2017. This financial information is derived from the pro forma financial statements attached as Schedule "E" to this Prospectus. **Neither the information below nor the pro forma financial statements attached as Schedule "E" to this Prospectus have been audited.**

	For the Nine Months Ended February 28,		
	Alternative Solutions, LLC	CLS USA Holdings, Inc.	Pro Forma Combined
Revenue	$ 5,139,555	$ -	$ 5,139,555
Cost of goods sold	3,258,388	-	3,258,388
Gross Profit	1,881,167	-	1,881,167
Operating expenses	2,845,491	1,831,554	4,677,045
Net operating loss	(964,324)	(1,831,554)	(2,795,878)
Other income (expense)	(60,141)	(3,760,787)	(3,820,928)
Net loss	$ (1,024,465)	$ (5,592,341)	$ (6,616,806)
Weighted average number of common shares outstanding - basic and fully diluted		35,654,299	57,713,122
Net (loss) per share - basic and fully diluted		$ (0.16)	$ (0.11)

	For the Year Ended May 31, 2017		
	Alternative Solutions, LLC	CLS USA Holdings, Inc.	Pro Forma Combined
Revenue	$ 1,367,196	$ -	$ 1,367,196
Cost of goods sold	1,164,617	-	1,164,617
Gross Profit	202,579	-	202,579
Operating expenses	1,811,702	1,610,955	3,422,657
Net operating loss	(1,609,123)	(1,610,955)	(3,220,078)
Other income (expense):	(459,020)	(3,254,769)	(3,713,789)
Net loss	$ (2,068,143)	$ (4,865,724)	$ (6,933,867)
Weighted average number of common shares outstanding - basic and fully diluted		20,778,785	42,837,608
Net (loss) per share - basic and fully diluted		$ (0.23)	$ (0.16)

CORPORATE STRUCTURE

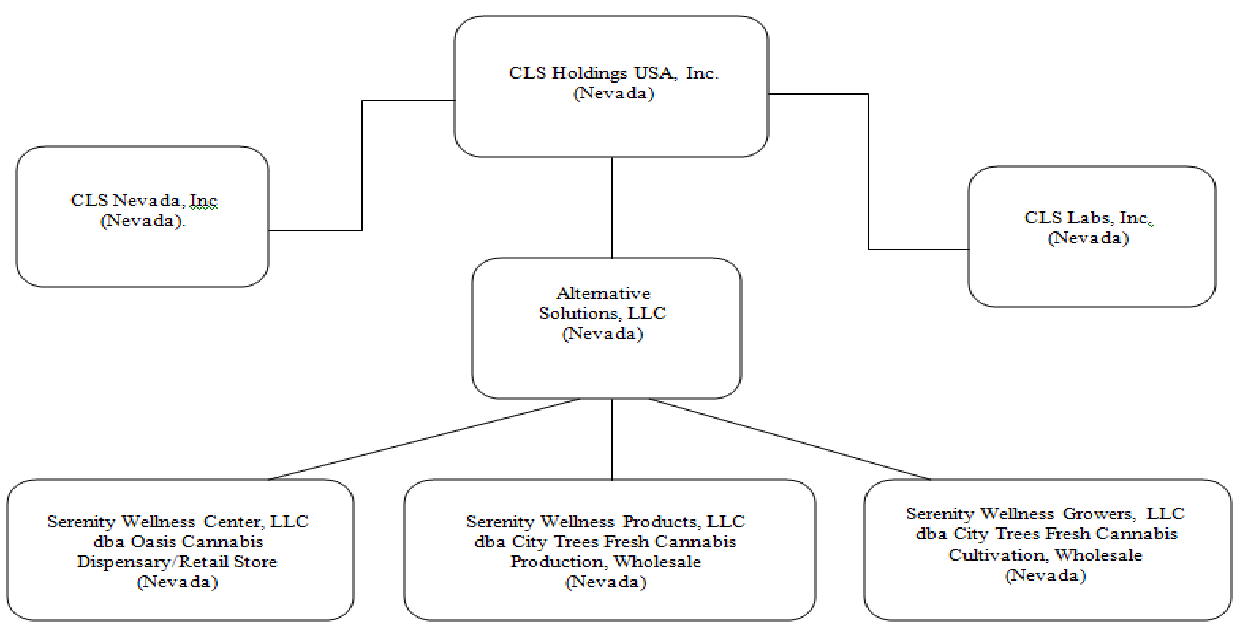
Name, Incorporation and Overview

The Company's mailing address is located at 11767 South Dixie Highway, Suite 115, Miami, Florida 33156 and the Company's registered office is located at 1810 E. Sahara Ave. Suite 613, Las Vegas, Nevada 89104. The Company is incorporated under Chapter 78 of the Nevada Revised Statutes. The Company was initially incorporated on March 31, 2011 as Adelt Design, Inc. under Chapter 78 of the Nevada Revised Statutes. Effective August 21, 2013. The Company's Common Shares became eligible for quotation on the OTCQB under the symbol ADSN. On November 12, 2014, CLS Labs acquired 6,250,000 shares, or 55.6%, of the outstanding common stock of the Company from its founder, Larry Adelt. As a condition to CLS Labs' purchase of these shares, and pursuant to five stock purchase agreements each dated November 12, 2014, five people or entities unaffiliated with the Company purchased an aggregate of 4,984,376 shares of common stock in the Company from twenty-four stockholders other than Mr. Adelt. The total number of shares acquired by these five purchasers represented 44.3% of the Company's outstanding Common Shares (the "**Merger**"). On November 20, 2014, the Company adopted amended and restated articles of incorporation therein changing the Company's name to CLS Holdings USA, Inc. Effective December 10, 2014 the Company changed its stock symbol to "CLSH" to reflect the name change of the Company. The Common Shares are currently eligible for quotation on the OTC Bulletin Board under the symbol "CLSH". As of the date of this Prospectus, there were 73,995,795 Common Shares outstanding.

As an OTCQB-listed issuer, the Company is subject to the disclosure requirements of Regulation 13A under the Securities Exchange Act of 1934, as amended, which requires the Company to file annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. Copies of these documents are available on the Company's EDGAR profile at www.sec.gov.

Inter-Corporate Relationships

The Company has three direct and three indirect, active, wholly-owned subsidiaries, CLS Labs and Alternative Solution are owned directly and Alternative Solutions owns 100% of the issued and outstanding shares of: (i) Serenity Wellness Center, LLC dba Oasis Cannabis ("**Oasis**"); (ii) Serenity Wellness Products, LLC dba City Trees Fresh Cannabis Production, Wholesale ("**City Trees Production**"); and (iii) Serenity Wellness Growers, LLC dba City Trees Fresh Cannabis Cultivation, Wholesale ("**City Trees Cultivation**", together with City Trees Production, "**City Trees**" and together with Oasis and City Trees Production, the "**Oasis Subsidiaries**"). The following diagram illustrates the inter-corporate relationships of the Company, and all of the parents own 100% of the issued and outstanding shares of their subsidiaries:



OUR BUSINESS

Overview

The Company owns 100% of Alternative Solutions, which is a Nevada-based holding company that owns three separate entities with licenses to operate four different types of cannabis businesses within the State of Nevada. Oasis Cannabis, the retail trade name. Oasis currently operates a retail marijuana dispensary within walking distance to the Las Vegas Strip. Its other subsidiaries, which do business as City Trees Cultivation and City Trees Production, currently operate a small-scale cultivation and product manufacturing facility, as well as a wholesale distribution operation in North Las Vegas. Management expects that the vertically integrated business model will drive strong margins to the bottom line on a large portion of existing sales at the dispensary if and when an expansion is completed at City Trees in the fourth quarter of 2018.

Oasis' retail dispensary is a single location operation in Nevada and occupies over 5,000 square feet of an over 20,000 square foot building (the "**Retail Facility**"). It intends to apply for several additional retail store licenses in September 2018 when the Nevada Department of Taxation (the "**NV DOT**"), its primary regulator, opens the application period from September 7th until September 20th. Although Oasis believes that it is a strong candidate to be granted additional licenses, there is no guaranty that it will be granted several or even one additional license. The existing location, which is easily accessible by tourists, is currently open 24 hours per day for walk-in customers and in-store pickup. It also delivers cannabis to residents between the hours of 10:00 AM and 8:00 PM. The central location provides logistical convenience for delivery to all parts of the Las Vegas valley.

City Trees' wholesale operations, which occupies approximately 1,150 square feet of a 22,000 square foot warehouse (the "**Warehouse Facility**"), began sales to third parties in August 2017. It had made sales to over 25 external customers by Q2 2018. Its existing product line includes vaporizers, tinctures, capsules, and concentrates. At present, the City Trees cultivation facility only grows breeding stock to preserve valuable genetics and does not offer its crops for sale or processing, As a result, all raw materials for manufacturing are sourced from third parties.

We are in the preliminary stages of expanding our grow operation and implementing additional manufacturing operations using both Oasis' existing and the Company's patented processing methods. We intend to build out a processing facility and a grow operation to manufacture product for our retail operation. We intend to construct a multi-level grow operation in our Warehouse Facility that is expeceted to house up to 15,000 square feet of grow canopy. We plan to implement the build out in two phases, first with two flower rooms of approximately 1,750 square feet, then by adding a third level and building out the remaining available space in the facilities. Once it is operating at full capacity, we expect our grow operation at the Warehouse Facility to produce over 500 pounds of cannabis per month, allowing us to implement a vertically integrated model. We anticipate using state of the art LED grow lights and a vertical racking system to dramatically reduce energy costs and increase growth capacity. The Warehouse Facility also has a 34,000 square foot enclosed yard we may develop into a greenhouse in the future as doing so would further reduce raw materials and manufacturing costs by using mostly sunlight instead of electricity. As we complete the phases of the expansion of our grow operation (the "**Greenhouse Expansion**") we expect to capture additional margin as we expect to purchase less of our raw materials from third parties. We estimate that completion of phase 1 and phase 2 of the Greenhouse Expansion will occur in Q1 of 2019 and Q3 of 2019, respectively.

Market Growth

According to the 2017 report compiled by ArcView Market Research, legal cannabis sales in the U.S. grew by over 37% in 2017 to $9.5 billion. This growth trend is expected to continue as more states legalize medical and retail cannabis and as more consumers choose to make legal cannabis purchases instead of buying through traditional sources. Consumers who are learning about new research supporting the health and the perceived medical benefits of cannabis will be a secondary source of strong growth in the market for the next several years.

Cannabis sales in Nevada have exceeded all expectations since recreational sales began on July 1, 2017. The NV DOT indicated it had exceeded its marijuana tax collection projection for the entire fiscal year after only nine months of sales.[1] Management believes that the Nevada market will continue to grow at double digit rates for the next few years. This expectation is supported by sales trends in other legal markets like Colorado and Washington.

Internal Growth Strategy

Oasis expects to continue to grow its dispensary market share both organically and by adding additional locations within the Nevada market. Locations will be added if and when Oasis is awarded new licenses following open application periods and through strategic acquisitions in select jurisdictions in Nevada. The NV DOT announced in July 2018 that it plans to open a new application period on September 7, 2018, which will last for 10 days. It is expected that there will be up to 35 licenses awarded in Southern Nevada and up to 20 additional licenses awarded throughout other parts of the state. Only existing license holders may apply for new licenses during this application period and Oasis believes that it will be granted a new license or licenses during this application period. There is currently a legal limitation on the number of licenses that may be issued during the upcoming licensing period. After the licenses are awarded, absent a change in legislation, the only way to obtain a new retail dispensary location in Nevada will be through acquisition.

Oasis plans to focus on acquisitions after the new license opportunity has passed if new locations are desired beyond what is awarded during the upcoming round of licensing. Oasis will seek to expand its footprint throughout the state in select locations with access to tourists or in residential areas with above average median income. The locations of the potential acquisitions will only matter to the extent that they are in preferable local jurisdictions. For licensing purposes, the physical location of a marijuana establishment in Nevada may be moved if it remains in the same local municipality or jurisdiction.

City Trees' wholesale growth strategy relies heavily on completion of at least the first phase of the Greenhouse Expansion with secondary focus on adding new customers and increasing product line penetration at each customer's retail location. City Trees has about 25 customers with regular recurring orders at dispensaries located throughout Nevada. Oasis currently purchases about $30,000 per month in products from City Trees, which represents only about 10% – 15% of the total retail sales. When City Trees is able to grow and release its wholesale cannabis flower, Oasis will be able to purchase about $100,000 worth of product as it replaces some of its current third party vendors with City Trees. It is expected that other existing wholesale customers will also replace some of their current suppliers' flower with City Trees once it has become available. At present, City Trees competes with companies that grow their own raw materials. Because City Trees currently purchases raw materials from third parties, and because competition prevents City Trees from pricing its product in a manner that would generate a typical gross margin, at present, City Trees is generally unable to generate positive cash flow from its sales. Oasis expects a positive cash flow to change as the Greenhouse Expansion becomes operational.

Dispensary Operations

Oasis opened as a medical cannabis dispensary in 2015 and began retail sales to adults over the age of 21 on July 1, 2017. Customers and patients can browse the selection of inventory on display and ask questions to qualified staff with minimal wait times. Automated payments allow for safety, convenience, and scalability.

Inventory Management

All inventory is tracked in the state-mandated METRC seed to sale tracking system. Additionally, the Company has recently implemented MJ Platform for its point of sale and internal inventory management system. Each item is stored in a designated physical location that is also reflected in the inventory control system. All products are prepackaged before arriving at the retail store and a barcode is added to each package to ensure the proper products are fulfilled in each order. MJ Platform synchronizes its sales and inventory data with METRC for additional assurance of compliance with state mandated inventory tracking accuracy. Regular, independent inventory counts ensure that any physical variances from the tracking system are detected and addressed

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[1] State of Nevada Department of Taxation "April Marijuana Revenue Statistics News Release". June 28, 2018, accessed July 3, 2018. Available at: https://tax.nv.gov/uploadedFiles/taxnvgov/Content/TaxLibrary/News-Release-April-Marijuana.pdf.

immediately. All product that is unusable is destroyed and logged with photo-evidence according to state regulations.

Product Selection

Product selections are currently managed by a team comprised of the General Manager, Assistant General Manager, and Inventory Team Leader. As Oasis adds new locations, it will form a centralized purchasing team that will ensure there is consistent product selection across all locations. The General Manager is responsible for negotiating bulk purchase discounts in conjunction with the Oasis CEO. The General Manager is also responsible for quality assurance and product mix. Each new vendor is researched, and their operations are visited whenever possible. Product samples are distributed to various employees and feedback is reviewed before making final product decisions. Oasis carries between 30 and 40 different cultivars or "strains" of cannabis flowers in addition to a wide variety of cannabis products such as vaporizers, concentrated oil, edibles, capsules, tinctures, and beverages.

Payment System

Payments made at Oasis are completed via both cash and electronic payment methods. All cash payments are made by customers through their use of an on-site kiosk. Electronic payments, such as those where a customer wishes to use a credit card, require an Oasis employee to load a closed loop gift card that can then be used for purchases. The kiosks operate using semi-custom and proprietary software that interfaces with the point of sale and inventory system. Oasis is in the process of implementing electronic payment methods that can be processed through a self-checkout technology as opposed to involving an Oasis employee. All cash payments are made into the kiosk, which stores the cash in a steel safe. All kiosk units are bolted to the ground and locked. By utilizing the kiosks, the exposure of operating a cash-intensive business is reduced and Oasis is able to scale and grow while minimizing labor costs associated with maintaining multiple cashiers and increasing operational efficiency.

Home Delivery and In-Store Pickup

Home delivery is currently about 15% of the total sales mix of Oasis. Customers can call or place orders online for both pickup and delivery. There is currently no fee for delivery but there are minimum order amounts based on the distance from the store. Home deliveries average well over $100 per order, which is about 75% higher than in-store orders. Oasis Cannabis is centrally located within the Las Vegas valley which makes it roughly equally distant from all areas of town. This allows the store to have a much wider geographic reach than it otherwise would. Many locals work on the Las Vegas Strip close to the store and will shop there when going to and from a shift. Offering delivery also allows them to conveniently make a purchase from Oasis without having to drive past a cannabis store that might be located closer to their homes. Many consumers prefer the convenience of home delivery and this allows Oasis to be their dispensary of choice regardless of how close they live to the store.

Pricing Strategy (Oasis)

Oasis targets at least a 50% gross margin when determining pricing for any given product. Market dynamics such as supply, demand, and competitive pressure can cause variances from the target. The assistant general manager of Oasis, as part of the purchasing team, will conduct or oversee a pricing survey to determine which of the competition in close proximity carries the product and how much such competition is charging for similar products. Oasis offers a price match guarantee to minimize the risk of losing customers to competitors' daily specials or discounts, and also sets prices to be consistent with the selection of product that is offered by competitor dispensaries in the area.

Marketing Strategy

Oasis Cannabis uses a variety of methods to reach consumers including billboards, paid digital static and video online ads, social media, marketing to rideshare drivers, and social engagement through a calendar of events at its community center called Community Oasis.

Cultivation, Production & Wholesale Sales Operations

City Trees' wholesale operations primarily consists of purchasing finished distilled cannabis oil from third party vendors and formulating it into a variety of finished products for sales and distribution to retail cannabis stores and medical dispensaries throughout Nevada. Although City Trees has the capability to conduct extraction, conversion and processing activities, it does not presently conduct many of these activities because it is not manufacturing its own raw materials. In the future, City Trees plans to conducts these activities using both its internally developed methods as well as the Company's patented process.

Due to the small size of the existing Oasis grow operation, it currently only cultivates plants for breeding and to preserve quality stock and does not harvest its plants for either production or for sale to third parties.

Product Line

City Trees offers the following product lines to its wholesale customers:

- The vaporizer and concentrate product line consists of proprietary blends of cannabis oil and terpenes filled into custom branded City Trees vaporizers that utilize ceramic heating technology to deliver clean, even heat without using a wick like most traditional vaporizers. The City Trees product line of capsules is known as City Caps and includes CBD and THC blends in ratios of 10 to 1, 4 to 1, and 1 to 4. The blends are named CBD, Rise, and Rest, respectively.

- The recently introduced City Trees line of tinctures includes a 20 to 1, 10 to 1, and a 1 to 1 CBD to THC ratio as well as a THC only version.

Pricing Strategy (City Trees)

The raw materials cost inputs are very high for the current product line relative to what would be seen in a normal market. Because of competitive pressure from companies that are producing their own raw materials, City Trees has not been able to set prices high enough to achieve targeted margins in the short term. City Trees has chosen to remain very competitive with pricing in order to grow and maintain market share during its expansion project. After construction of phase 1 of the Greenhouse Expansion is completed and the Company is harvesting its own raw materials, the margins are expected to be recaptured from the third party suppliers.

Vertical Farming

As wholesale cannabis flower and trim moves toward becoming priced like a commodity, minimizing output costs will become more important than ever before. Wholesale price compression will reduce profitability and put many operators who are not able to grow outdoors or in greenhouses in difficult positions. Vertical farms use cubic feet instead of square feet to calculate how much space is available for cultivation. The Greenhouse Expansion construction project plans for 20-foot ceilings that can accommodate up to 3 tiers of grow canopy, essentially tripling the potential output in the building. City Trees will start with 2 tiers in most areas during phase 1 of its expansion and test 3 tiers on a smaller scale before rolling it out across the entire facility in phase 2.

The vertical farm will reduce electricity and rent costs per pound but has the potential to increase labor costs per pound if proper automation is not used. City Trees plans to utilize a moderate amount of automated technology to offset the potential additional labor costs. Automated watering, feeding, lighting systems are in the design phase.

Energy Efficient Heating & Cooling

In addition to using LED lights to conserve energy, City Trees plans to utilize natural gas heat pumps to minimize its heavy reliance on electricity. The units are able to heat and cool critical areas of the building using natural gas instead of relying on the already over-burdened electrical system of an indoor cultivation facility.

Single Stream Inventory

Nevada is different from Colorado regarding its treatment of inventory for medical and recreational customers. As long as a wholesale facility holds both a medical and a recreational license, it may sell products to dispensaries that may be sold to both recreational and medical customers. As long as the dispensary also hold both licenses, the inventory may be sold to either type of customer as long as it came from a wholesale company with both license types. This reduces logistical challenges that would otherwise arise from having two separate streams of inventory to service the medical and adult-use segments.

Licenses

A Retail Marijuana Store License or Medical Marijuana Dispensary Registration Certificate allows for the sale of cannabis products to the applicable end consumer. A company must hold both licenses to be able to sell products to both types of consumers. A retail marijuana store may also deliver to residents in Nevada without any additional licensing. Both local and state licenses are required.

A Retail (adult-use or recreational) Marijuana Cultivation or Medical Marijuana Cultivation Registration Certificate allows the holder to grow as much cannabis as it can in its approved production space. There is no limitation to the number of plants that maybe be grown at any time. The state only approves the production space regarding compliance, not size.

A Retail (adult-use or recreational) Marijuana Product Manufacturing license or Medical Marijuana Production Registration Certificate allows for the extraction, conversion, and manufacturing of raw cannabis material into finished consumer packaged goods. The NV Department of Taxation must approve all formulas, processes, equipment, products, and packaging prior to any manufacturing or sales.

A Retail (adult-use or recreational) Marijuana Distributor License allows licensees to deliver wholesale products from a cultivator or manufacturer to a retail store. This is only a requirement for products that could be sold to recreational customers. Many vertically integrated operators are forced to use third party distributors to deliver products from their wholesale facilities to their own stores and to other customers. City Trees holds one of only 29 distributor licenses that exist to serve the more than 60 dispensaries and 195 wholesalers in the State. Oasis is licensed to operate in the city of Las Vegas as a Dual Use Marijuana Business, and in the State of Nevada as a Medical Marijuana Dispensary Establishment and a Retail Marijuana Store. City Trees Production is licensed to operate in the state of Nevada as a Medical Marijuana Production Establishment, a Retail Marijuana Product Manufacturing facility and a Retail Marijuana Distributor. City Trees Production is also licensed to operate in the state of Nevada as a Medical Marijuana Cultivation Facility and a Retail Marijuana Cultivator. Please see "*United States Regulatory Environment – Oasis Subsidiary Licenses*" for a complete list of state and local licenses held by the Oasis Subsidiaries.

Domains

The Company has protected its Internet domain names with the following registered domains as of the date of this Prospectus:

- https://www.clsholdingsinc.com/
- https://oasiscannabis.com/
- http://www.citytrees.com/

Employees

As of June 15, 2018, Oasis had 54 employees. The employees are distributed among the following departments:

Nevada Market Administration	**Number of Employees**
Administrative	2

Accounting	1
Oasis Cannabis Retail	
Product Sales and Customer Service	20
Inventory Control	9
Dispatch / Delivery	8
Safety / Security	6
Leadership	2
Communications	1
City Trees Wholesale	
Wholesale Sales and Distribution	2
Leadership	1
Cultivation / Product Manufacturing	1
Inventory Control	1
Total Employees	54

The Company believes in equal opportunity employment and we recruit, hire and promote individuals that are best qualified for each position without regard to race, color, creed, sex, national origin or handicap. We pride ourselves on using a selection process that recruits people who are trainable, co-operative and share the core values of the Company. The Company's employees are highly-talented individuals who have educational achievements ranging from masters and undergraduate degrees in a wide range of disciplines, as well as staff who have been trained on the job to uphold the highest standards set as a Company.

The Company recruits based on a rigorous interview process to ensure the right candidates are selected for the Company and the individual team. In addition to adherence to the Company's core values, it requires that each employee acts with integrity and constant striving to uphold the highest professional standards.

In addition, the safety of the Company's employees is a priority and the Company is committed to the prevention of illness and injury through the provision and maintenance of a healthy workplace. The Company takes all reasonable step to ensure staff are appropriately informed and trained to ensure the safety of themselves as well as others around them.

In addition to the Oasis employees, the Company employs three executive and management personnel and engages one consultant in a management capacity

Specialized Skill & Knowledge

Commercial cannabis cultivation requires access to employees with specialized skills and knowledge in order to maximize harvest quality and yield in addition to having the capacity for developing new varieties. Botanical extraction of concentrated oils, product formulation and product manufacturing each require their own specific sets of specialized skill and knowledge to ensure maximization of yields and quality from extraction and to create consistent, high quality products. Additionally, the operation of a quality retail cannabis store requires extensive product knowledge to provide the optimal experience for customers. Each of these operations requires extensive knowledge and understanding of the Nevada regulatory landscape to ensure compliance with all local and state laws and regulations.

The COO of CLS Nevada, Inc has gained important skills and knowledge through experience with all areas needed to run a successful cultivation operation. He expects to continue to develop unique, new strains that are only available to City Trees and will build on the current knowledge of the organization through testing new techniques and technologies in a small research and development room within the cultivation facility. His previous experience along with independent consultation, is the basis for Oasis' proprietary standard operating procedures that we believe will ensure consistent quality and yield performance. He has practical experience with the extraction of cannabis including no-solvent, butane, carbon dioxide and the finishing of the extracts into consumer-packaged goods.

The extraction / product formulation team includes employees with hands on experience in cannabis extraction and product manufacturing in addition to employees with undergraduate chemistry degrees and limited experience in cannabis extraction. This provides access to both the technical and hands-on applications of knowledge that benefits product formulation in addition to extraction efficiency and productivity.

The leadership at Oasis is knowledgeable in all the products available in the United States market because the leadership at Oasis has operated in Nevada since the beginning of medical cannabis sales.

The Company conducts ongoing training to ensure compliance with all laws and regulations. The leadership of each business unit attends regular compliance training conducted by local and state officials which provides content and updates for internal training.

In addition to the Company's internal resources, there is a broad market of skilled employees with cannabis knowledge and experience in Nevada to facilitate growth of the labor force.

Competitive Conditions

The Company currently operates in the Nevada cannabis market, which has limited licensing opportunities for retail locations in accordance with state regulations. There is currently no legal limitation on the number of cultivation and product manufacturing licenses that may be issued and there is no limitation on how much can be grown or produced with those licenses. These conditions create significant barriers to entry for new competition.

The limitation on the number of licenses available for retail creates a significant barrier to entry for potential competition in the retail cannabis market. Prospective competitors will not be able to acquire any of the currently proposed new licenses unless they are operating in Nevada. This leaves acquisition as the only method available for most companies to enter the state's retail cannabis market absent changes in legislation. There is also a 10% legal limitation on the number of retail licenses that may be owned by any one entity within a given county. The size and number of locations in a potential acquisition are limited as a result. These conditions mitigate the risk of losing market share to new companies entering the Nevada retail market.

Nevada wholesale prices have increased since recreational sales began as a result of a demand spike being met with a limited supply. Expansion projects, like the City Trees cultivation facility, have been completed or are underway to meet the additional demand. Most of the additional supply is coming from existing players within the market as very few new cultivation licenses have been issued. The ability to expand facilities without limitation will allow the market to reach an equilibrium wholesale price point without the need to license additional operators. Although there is no legal limitation on cultivation and production licenses, we do not currently anticipate that new licenses will be issued

Components

Raw materials for processing and manufacturing are available from a variety of sources. Oasis maintains relationships with various suppliers for each key component of the raw materials to mitigate vendor concentration risk. City Trees wholesale operations is the sole purchaser of raw materials within the organization because the retail operation only stocks finished consumer packaged products. All raw materials are currently purchased from third parties. City Trees is expected to be able to supply a large portion of the raw cannabis material upon completion of phase 1 of the Greenhouse Expansion, but certain items will always come from third parties. The following table describes the key components of the supply chain for City Trees products:

Raw Material Item	Description	Sources	# of Suppliers	Pricing	Internal Sourcing

Raw Cannabis Trim	Raw cannabis leaf that is trimmed from raw flowers that will be sold directly to consumers. Trim makes up the majority of what is extracted into oil.	Nevada Licensed Cultivators (115 active licenses as of April 2018)	5+	Wholesale prices are currently in the range of $500 - $750 per pound. Target pricing is $350 per pound in order to match the cost of sourcing finished bulk oil.	Gradually increasing amount will be sourced internally upon completion of Greenhouse Expansion.
Raw Cannabis Flower	Raw cannabis flower is typically trimmed, packaged and sold to consumers or it is rolled into pre-rolled joints, packaged and sold to consumers. City Trees is currently not purchasing or harvesting flower.	Nevada Licensed Cultivators (115 active licenses as of April 2018)	5+	Wholesale prices currently range from $2,000 - $3,000 per pound.	Gradually increasing amount will be sourced internally for City Trees upon completion of Greenhouse Expansion.
Bulk Distillate Cannabis Oil	Cannabis oil refined through distillation processes that maximize potency and remove impurities.	Nevada Licensed Product Manufacturers (80 active licenses as of April 2018)	4+	Wholesale prices currently range from $16 - $18 per gram.	Gradually increasing amount will be sourced and processed internally upon completion of Greenhouse Expansion.
Custom All-in-One Disposable Vaporizer Pens	Cannabis oil vaporizer "pens" with ceramic heating that contain a single use battery charge customized with City Trees logos and imagery.	Distributors of Chinese Manufacturing Products	2	$3.35 each	N/A
Vaporizer Pen Cartridges and Custom Batteries	Cannabis oil vaporizer cartridges with ceramic heating that attach to a rechargeable battery customized with City Trees logos and imagery.	Distributors of Chinese Manufacturing Products	2	Cartridges: $2.50 each Custom Batteries: $3.25 each	N/A
Vegan Capsules	Empty capsules that are filled with proprietary blends of cannabis oil and terpenes	Online Medical Supply Companies	2	1.3 cents per capsule	N/A
Botanical Terpenes	Natural compounds found in essential oils of plants with strong fragrance and flavor. Some terpenes have been shown to be biologically active with specific effects	Domestic online suppliers of cannabis-derived and non-cannabis derived terpenes.	2	Isolated Terpenes: $290 per kilogram	Some terpenes will be sourced internally through a fractional distillation process.
CBD Isolate	Cannabidiol (CBD) in powder form that is 99.9% pure CBD	Domestic Industrial Hemp Growers and Processors	2	Wholesale prices range from $7,000 - $10,000 per kilogram	N/A

Trademarks and Other Intellectual Property

The Company has developed extraction and processing methods that are proprietary and, on April 24, 2018, the Company (via CLS Labs) was awarded a non-provisional U.S. utility patent for cannabidiol extraction and conversion process by the United States Patent and Trademark Office (U.S. patent number 9,950,976 B1, the "**Patent**"). The Patent is expected to result in market-changing product consistency, cost savings for growers, and increased anticipated revenues for us due to the larger amount of Delta-9 THC that we believe we can produce through our patent pending proprietary process. We expect to use a version of the patented technology on a smaller scale in connection with the Greenhouse Expansion.

History

Since 2014, one of the founders of CLS Labs has been developing 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 e-cigarettes, and used for a variety of pharmaceutical and other purposes. Internal testing of the cannabinoids extracted through our patent-pending proprietary process versus the cannabinoids resulting from the processes commonly used in the industry, the results of which were reviewed and confirmed by an independent laboratory, has revealed that our process produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace. On April 24, 2018, the Company (via CLS Labs) was awarded the Patent on its proprietary process.

As CLS Labs was unable to obtain a license in Colorado to operate a cannabis processing facility due to residency requirements, on April 17, 2015, it entered into an arrangement (the "**Colorado Arrangement**") through a wholly owned subsidiary incorporated in Colorado with Picture Rock Holdings, LLC ("**PRH**"), which was to be licensed by the State of Colorado as a marijuana infused product manufacturer and retailer, to, among other things, (i) license its patent pending proprietary technology, methods and processes to PRH in exchange for a fee; (ii) build a processing facility and lease such facility, including equipment, to PRH; and (iii) loan certain funds to PRH to be used by PRH in connection with its financing of the building out, equipping, and development of the grow facility that will be operated by a licensed third-party marijuana grower.

On April 29, 2015, the Company entered into a merger agreement with CLS Labs and a newly-formed, wholly owned subsidiary of the Company (the "**Merger Sub**") and effected the Merger. Upon the consummation of the Merger, the separate existence of the Merger Sub ceased and CLS Labs, the surviving corporation in the Merger, became a wholly owned subsidiary of the Company, with the Company acquiring the stock of CLS Labs, abandoning its previous business, and adopting the existing business plan and operations of CLS Labs. CLS Labs is a company that plans to generate revenues through licensing, fee-for-service and joint venture arrangements related to its patent pending proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

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

Recently, the Company suspended its plans to proceed with the Colorado Arrangement due to regulatory delays and began pursuing other revenue producing opportunities, which resulted in the Acquisition.

2018 Special Warrant Financing

On June 20, 2018, the Company closed the Offering of Special Warrants for aggregate gross proceeds of CAD$13,037,859. The Agent acted as the sole agent and sole bookrunner in connection with the Offering.

Pursuant to the Offering, the Company issued 28,973,019 Special Warrants, at a price of CAD$0.45 per Special Warrant. Each Special Warrant is automatically exercisable, for no additional consideration, into Units on the earlier of: (i) the date that is five business days following the date on which the Company obtains a Receipt from the Securities Commissions for a (final) prospectus qualifying the distribution of the Units issuable upon exercise of the Special Warrants, and (ii) October 28, 2018.

Upon automatic exercise of the Special Warrants, each Unit shall consist of one Common Share and one Warrant. Each Warrant will be exercisable to acquire one Common Share at a price of CAD$0.65 for a period of 36 months from the Listing Date, subject to adjustment in certain events.

Pursuant to the terms of the Offering, the Company has agreed to use its best efforts to obtain a Receipt from the Securities Commissions for the Prospectus before August 20, 2018. In the event the Company has not received a Receipt from the Securities Commissions for the Prospectus before August 20, 2018, each unexercised Special Warrant will thereafter entitle the holder to receive, upon the exercise thereof, for no additional consideration, 1.1 Units (instead of one (1) Unit) (the additional 0.1 Units are collectively referred to herein as the "**Penalty Units**"); provided, however, that any fractional entitlement to Penalty Units will be rounded down to the nearest whole Penalty Unit.

Acquisition of Alternative Solutions

On June 27, 2018, the Company completed the purchase of all of the membership interests in Alternative Solutions and the Oasis Subsidiaries from the members of such entities (other than Alternative Solutions) (the "**Acquisition**"). 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 Subsidiaries 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 Subsidiaries, from its members, and the membership interests in the Oasis Subsidiaries owned by members other than Alternative Solutions. The revised structure of the transaction is referenced in the Oasis Note (as defined below), which modified the Acquisition Agreement.

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis Subsidiaries. At that time, the Company applied for regulatory approval to own an interest in the Oasis Subsidiaries, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis Subsidiaries, which were equal to cash in the amount of $6,200,000, a $4.0 million promissory note due in December 2019 (the "**Oasis Note**"), and 22,058,823 Common Shares (the "**Purchase Price Shares**") (collectively, the "**Closing Consideration**"). The Company used the proceeds of its Special Warrant Financing to fund the cash portion of the Closing Consideration. The Company will now apply for regulatory approval to own the additional 90% in membership interests in the Oasis Subsidiaries, which we expect to receive in due course. The change of ownership in the Oasis Subsidiaries to the Company will be recorded upon receipt of such regulatory approvals.

The number of Purchase Price Shares was equal to 80% of the offering price of the Company' Common Shares in its last equity offering, which price was $0.34 per share. The Oasis Note is secured by a first priority security interest over the membership interests in Alternative Solutions and the Oasis Subsidiaries, as well as by the assets of the Oasis Subsidiaries. The Oasis Note bears interest at the rate of 6% per annum and both principal and accrued interest are due and payable in full on December 4, 2019 but may be prepaid at any time without penalty. The Company also delivered a confession of judgment to a third party neutral representative of the parties that will become effective, in general, if we default under the Oasis Note.

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

The sellers of the membership interests in Alternative Solutions are also entitled to a $1,000,000 payment from the Company on May 30, 2020 if the Oasis Subsidiaries have maintained an average revenue of $20,000 per day during the 2019 calendar year.

None of the sellers of the membership interests in Alternative Solutions or the Oasis Subsidiaries was affiliated with the Company prior to the closing. In connection with the closing, however, the Company employed Mr. Ben Sillitoe, the CEO and a member of Alternative Solutions, as the Chief Executive Officer of CLS Nevada, Inc. Chief Operating Officer. The Company plans to issue Mr. Sillitoe 500,000 restricted Common Shares pursuant to his employment agreement, once it is finalized. The Company also plans to issue 600,000 restricted Common Shares to David Lamadrid, former President and Chief Financial Officer of the Company, for introducing us to Alternative Solutions and in connection with his employment.

United States Regulatory Environment

Issuers with U.S. Cannabis-Related Assets

On October 16, 2017, the CSA published Staff Notice 51-352 - *Issuers with U.S. Marijuana-Related Activities* which provides specific disclosure expectations for issuers that currently have, or are in the process of developing, cannabis-related activities in the United States as permitted within a particular state's regulatory framework. All issuers with United States cannabis-related activities are expected to clearly and prominently disclose certain prescribed information in prospectus filings and other required disclosure documents.

In light of the political and regulatory uncertainty surrounding the treatment of U.S. cannabis-related activities, including the rescission of the Cole Memorandum (as hereinafter defined) discussed below, on February 8, 2018 the CSA published the revised Staff Notice 51-352 setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry. The Company views Staff Notice 51-352 favourably, as it provides increased transparency and greater certainty regarding the views of its proposed exchange and its regulator of existing operations and strategic business plan as well as the Company's ability to pursue further investment and opportunities in the United States. Below is a table of concordance that is intended to assist readers in identifying those parts of this Prospectus that address the disclosure expectations outlined in Staff Notice 51-352.

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
All Issuers with U.S. Marijuana-Related Activities	Describe the nature of the issuer's involvement in the U.S. marijuana industry and include the disclosures indicated for at least one of the direct, indirect and ancillary industry involvement types noted in this table.	*Our Business* *United States Regulatory Environment - Nature of Involvement*
	Prominently state that marijuana is illegal under U.S. federal law and that enforcement of relevant laws is a significant risk.	*Cover Page (disclosure in bold typeface)* *United States Regulatory Environment - Compliance with Applicable State Law in the United States*
	Discuss any statements and other available guidance made by federal authorities or prosecutors regarding the risk of enforcement action in any jurisdiction where the issuer conducts U.S. marijuana-related activities.	*Risk Factors*
	Outline related risks including, among others, the risk that third party service providers could suspend or withdraw	*United States Regulatory Environment - Ability to Access*

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	services and the risk that regulatory bodies could impose certain restrictions on the issuer's ability to operate in the U.S.	*Public and Private Capital* *Risk Factors*
	Given the illegality of marijuana under U.S. federal law, discuss the issuer's ability to access both public and private capital and indicate what financing options are / are not available in order to support continuing operations.	*United States Regulatory Environment - Ability to Access Public and Private Capital* *Risk Factors*
	Quantify the issuer's balance sheet and operating statement exposure to U.S. marijuana-related activities.	*Selected Consolidated Financial Information* Schedules "A", "B", "C" and "D" to this Prospectus. **Note: at the time of this Prospectus, the major operations of the Company are only in the United States**
	Disclose if legal advice has not been obtained, either in the form of a legal opinion or otherwise, regarding (a) compliance with applicable state regulatory frameworks and (b) potential exposure and implications arising from U.S. federal law.	Legal advice has been obtained.
U.S. Marijuana Issuers with direct involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer operates and confirm how the issuer complies with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	*Our Business – United States Regulatory Environment – State Level Overview* *Our Business – United States Regulatory Environment – Compliance with Applicable State Law in the United States*
	Discuss the issuer's program for monitoring compliance with U.S. state law on an ongoing basis, outline internal compliance procedures and provide a positive statement indicating that the issuer is in compliance with U.S. state law and the related licensing framework. Promptly disclose any non-compliance, citations or notices of violation which may have an impact on the issuer's	*Our Business – United States Regulatory Environment – Compliance with Applicable State Law in the United States* *Risk Factors*

Industry Involvement	Specific Disclosure Necessary to Fairly Present all Material Facts, Risks and Uncertainties	Listing Statement Cross Reference
	licence, business activities or operations.	
U.S. Marijuana Issuers with indirect involvement in cultivation or distribution	Outline the regulations for U.S. states in which the issuer's investee(s) operate.	Not applicable.
	Provide reasonable assurance, through either positive or negative statements, that the investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state. Promptly disclose any non-compliance, citations or notices of violation, of which the issuer is aware, that may have an impact on the investee's licence, business activities or operations.	Not applicable.
U.S. Marijuana Issuers with material ancillary involvement	Provide reasonable assurance, through either positive or negative statements, that the applicable customer's or investee's business is in compliance with applicable licensing requirements and the regulatory framework enacted by the applicable U.S. state.	Not applicable.

Nature of Involvement

The Company, through the Oasis Subsidiaries, is directly involved in the cultivation, distribution and sale of cannabis in the State of Nevada.

Financial Exposure to U.S. Cannabis-Related Activities

All of the Company’s operations are in the United States. Therefore, the Company’s balance sheet and operating statement exposure to U.S. marijuana-related activities is 100%.

Enforcement of United States Federal Laws

In the United States, cannabis is highly regulated at the state level. To the Company’s knowledge, there are to date a total of 30 states, plus the District of Columbia, Puerto Rico and Guam that have legalized medical cannabis in some form although not all states have fully implemented their legalization programs. Nine states and the District of Columbia have legalized cannabis for adult use. Fifteen additional states have legalized high-cannabidol (CBD), low Tetrahydrocannabinol (THC) oils for a limited class of patients. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the Controlled Substances Act (codified in 21 U.S.C.A. Section 812). Under United States federal law, a Schedule I drug is considered to have a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the substance under medical supervision. Federal law prohibits commercial production and sale of all Schedule I controlled substances, and as such, cannabis-related activities, including without limitation, the importation, cultivation, manufacture, distribution, sale and possession of cannabis that remain illegal under U.S. federal law. It is also illegal to aid or abet such activities or to conspire or attempt to engage in such activities. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor provide a defense to any federal proceeding brought against the Company. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including, but not limited to, forfeiture of his, her or its entire investment, fines and/or imprisonments.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in, and the operations of, cannabis businesses in the U.S. are subject to inconsistent laws and regulations. The so-called "**Cole Memomorandum**" or "**Cole Memo**" issued by former Deputy Attorney General James Cole on August 29, 2013 and other Obama-era cannabis policy guidance, discussed below, provided the framework for managing the tension between federal and state cannabis laws. Subsequently, as discussed below, Attorney General Jeff Sessions rescinded the Cole Memo and related policy guidance. Although no longer in effect, these policies, and the enforcement priorities established within, appear to continue to be followed during the Trump administration and remain critical factors that inform the past and future trend of state-based legalization.

The Cole Memo directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that comply with state medical or adult-use cannabis regulatory programs, provided certain enumerated enforcement priorities (such as diversion or sale of cannabis to minors) were not implicated. In addition to general prosecutorial guidance issued by the DOJ, the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("**FinCEN**") issued a memorandum on February 14, 2014 outlining Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis businesses, which echoed the enforcement priorities outlined in the Cole Memo (the "**FinCEN Memorandum**" or "**FinCEN Memo**"). On the same day the FinCEN Memorandum was published, the DOJ issued complimentary policy guidance directing prosecutors to apply the enforcement priorities of the Cole Memo when determining whether to prosecute individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related activities (the "**Cole Banking Memorandum**").

On January 4, 2018 Attorney General Jeff Sessions rescinded the Cole Memo, the Cole Banking Memorandum, and all other related Obama-era DOJ cannabis enforcement guidance. 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, Attorney General Sessions' rescission of the Cole Memo and the Cole Banking Memorandum has not affected the status of the FinCEN Memorandum issued by the Department of Treasury, which remains in effect. 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.S. Attorney's Manual (the "**USAM**"). The USAM enforcement priorities, like those of the Cole Memo, are based on the use of the federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community." Although the Sessions Memorandum emphasizes that cannabis is a federally illegal Schedule I controlled substance, it does not otherwise instruct U.S. Attorneys to consider the prosecution of cannabis-related offenses a DOJ priority, and in practice, most U.S. Attorneys have not changed their prosecutorial approach to date. However, due to the lack of specific direction in the Sessions Memorandum as to the priority federal prosecutors should ascribe to such cannabis activities, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law. See "*Risk Factors*".

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, and also divert the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company. See "*Risk Factors*".

For the reasons set forth above, the Company's existing operations in the United States, and any future operations or investments the Company may engage in, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to operate in the United States or any other jurisdiction. See "*Risk Factors*".

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in the United States or elsewhere. A negative shift in the public's perception of medical cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations. See "*Risk Factors*".

Further, violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. See "*Risk Factors*".

United States Enforcement Proceedings

An appropriations rider contained in the fiscal year 2015, 2016, 2017, and 2018 Consolidated Appropriations Acts (formerly known as the "Rohrabacher-Farr" Amendment; now known as the "Rohrabacher-Blumenauer Amendment" and currently proposed for the next appropriations rider as the "Joyce Amendment", referred to herein as the "**Amendment**") provides budgetary constraints on the federal government's ability to interfere with the implementation of state-based *medical* cannabis laws. The Ninth Circuit Court of Appeals and other courts have interpreted the language to mean that the Department of Justice ("**DOJ**") cannot expend funds to prosecute state-law-abiding medical cannabis operators complying strictly with state medical cannabis laws. The Amendment prohibits the federal government from using congressionally appropriated funds to prevent states from implementing their own medical cannabis laws. The Amendment remains in effect through September 30, the end of the 2018 fiscal year, at which point Congress will decide whether to approve its extension. Continued reauthorization of the Amendment is predicated on future political developments and cannot be guaranteed. If the Amendment expires, federal prosecutors could prosecute even state-compliant medical cannabis operators for conduct wihtin the five-year statute of limitations. The Amendment does not protection to state legal adult-use cannabis businesses and the DOJ may spend funds to prosecute persons that are operating in accordance with state adult use cannabis laws.

Ability to Access Public and Private Capital

The Company has historically, and continues to have, access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada. The Company's executive team and board of directors of the Company (the "**Board of Directors**") also have extensive relationships with sources of private capital (such as funds and high net worth individuals), that could be investigated at a higher cost of capital. If such equity and/or debt financing was no longer available in the public markets in Canada due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.

While the Company is not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, it currently has access to equity financing through the public markets in Canada. Since the use of marijuana is illegal under U.S. federal law, and in light of concerns in the banking industry regarding money laundering and other federal financial crime related to marijuana, U.S. banks have been reluctant to accept deposit funds from businesses involved with the marijuana industry. Consequently, businesses involved in the marijuana industry often have difficulty finding a bank willing to accept their business. Likewise, marijuana businesses have limited, if any, access to credit card processing services. As a result, marijuana businesses in the U.S. are largely cash-based. This complicates the implementation of financial controls and increases security issues.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that additional financing, if raised privately, will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability. See "*Risk Factors – Additional Financing*".

State-Level Overview

The following sections present an overview of market and regulatory conditions for the marijuana industry in the state of Nevada, in which the Company has an operating presence in, and is presented as of August 2018, unless otherwise indicated. Although the Company's activities are compliant with applicable United States state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it provide a defense to any federal proceeding which may be brought against the Company.

Nevada Summary

Nevada has a medical marijuana program and passed an adult-use legalization through the ballot box in November 2016. In 2000, Nevada voters passed an amendment to the Nevada state constitution allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a limited non-commercial medical marijuana patient/caregiver system. Senate Bill 374, which passed the legislature and was signed by the Governor in 2013, expanded this program and established a for-profit regulated medical marijuana industry.

The Nevada Division of Public and Behavioral Health licensed medical marijuana establishments up until July 1, 2017 when the state's medical marijuana program merged with adult-use marijuana enforcement under the NV DOT. In 2014, Nevada accepted medical marijuana business applications and a few months later the Division approved 182 cultivation licenses, 118 licenses for the production of edibles and infused products, 17 independent testing laboratories, and 55 medical marijuana dispensary licenses. The number of dispensary licenses was then increased to 66 by legislative action in 2015. The application process is merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business. In addition, vertical integration is neither required nor prohibited. Nevada's medical law includes patient reciprocity, which permits medical patients from other states to purchase marijuana from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical marijuana to patients.

Each medical marijuana establishment must register with the NV DOT and apply for a medical marijuana establishment registration certificate. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical marijuana establishment as well as restrictions relating to the age and criminal background of employees, owners, officers and board members of the establishment. All employees must be over 21 and all owners, officers and board members must not have any previous felony convictions or had a previously granted medical marijuana registration revoked. Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the NV DOT as a medical marijuana agent and hold a valid medical marijuana establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the proposed medical marijuana establishment will sell or deliver edible marijuana products or marijuana-infused products, proposed operating procedures for handling such products which must be preapproved by the NV DOT.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the NV DOT, in addition the application requirements set out, considers the following criteria of merit:

(a) the total financial resources of the applicant, both liquid and illiquid;

(b) the previous experience of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment at operating other businesses or non- profit organizations;

(c) the educational achievements of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment;

(d) any demonstrated knowledge or expertise on the part of the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment with respect to the compassionate use of marijuana to treat medical conditions;

(e) whether the proposed location of the proposed medical marijuana establishment would be convenient to serve the needs of persons who are authorized to engage in the medical use of marijuana;

(f) the likely impact of the proposed medical marijuana establishment on the community in which it is proposed to be located;

(g) the adequacy of the size of the proposed medical marijuana establishment to serve the needs of persons who are authorized to engage in the medical use of marijuana;

(h) whether the applicant has an integrated plan for the care, quality and safekeeping of medical marijuana from seed to sale;

(i) the amount of taxes paid to, or other beneficial financial contributions made to, the State of Nevada or its political subdivisions by the applicant or the persons who are proposed to be owners, officers or board members of the proposed medical marijuana establishment; and

(j) any other criteria of merit that the Division determines to be relevant.

A medical marijuana establishment registration certificate expires 1 year after the date of issuance and may be renewed upon resubmission of the application information and renewal fee to the NV DOT.

Adult-Use Retail Marijuana Program

The sale of marijuana for adult-use in Nevada was approved by ballot initiative on November 8, 2016 and Nevada Revised Statute 453D exempts a person who is 21 years of age or older from state or local prosecution for possession, use, consumption, purchase, transportation or cultivation of certain amounts of marijuana and requires the NV DOT to begin receiving applications for the licensing of marijuana establishments on or before January 1, 2018. The legalization of retail marijuana does not change the medical marijuana program.

In February 2017, the Nevada Department of Taxation announced plans to issue "early start" recreational marijuana establishment licenses in the summer of 2017. These licenses, beginning on July 1, 2017, allowed marijuana establishments holding both a retail marijuana store and dispensary license to sell their existing medical marijuana inventory as either medical or adult-use marijuana, and expired at the end of the year. Starting July 1, 2017, medical and adult-use marijuana have incurred a 15% excise tax on the first wholesale sale (calculated on the fair market value) and adult-use cannabis have incurred an additional 10% special retail marijuana sales tax in addition to any general state and local sales and use taxes.

On January 16, 2018, the Marijuana Enforcement Division of the NV DOT issued final rules governing its adult-use marijuana program, pursuant to which up to sixty-six (66) permanent adult-use marijuana dispensary licenses will be issued. Existing adult-use marijuana licensees under the "early start" regulations must re-apply for licensure under the permanent rules in order to continue adult-use sales.

Under Nevada's adult-use marijuana law, the NV DOT licenses marijuana cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement, the single regulatory agency is now known as the "Marijuana Enforcement Division of the Department of Taxation." For the first 18 months, applications to the Department for adult-use establishment licenses can only be accepted from existing medical marijuana establishment certificate holders and existing liquor distributors for the adult-use distribution license. In November 2018, the NV DOT may open up the application process to those not holding a medical marijuana establishment certificate.

There are five types of retail marijuana establishment licenses under Nevada's retail marijuana program:

1. **Cultivation Facility** - licensed to cultivate (grow), process, and package marijuana; to have marijuana tested by a testing facility; and to sell marijuana to retail marijuana stores, to marijuana product manufacturing facilities, and to other cultivation facilities, but not to consumers.

2. **Distributor** - licensed to transport marijuana from a marijuana establishment to another marijuana establishment. For example, from a cultivation facility to a retail store.

3. **Product Manufacturing Facility** - licensed to purchase marijuana; manufacture, process, and package marijuana and marijuana products; and sell marijuana and marijuana products to other product manufacturing facilities and to retail marijuana stores, but not to consumers. Marijuana products include things like edibles, ointments, and tinctures.

4. **Testing Facility** - licensed to test marijuana and marijuana products, including for potency and contaminants.

5. **Retail Store** - licensed to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities, and marijuana from other retail stores; can sell marijuana and marijuana products to consumers.

Administration of the regular retail program in Nevada will be governed by permanent regulations, currently being drafted by the NV DOT. The NV DOT has been conducting public consultation and receiving public comments on the Revised Proposed Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017 (the "**Nevada Adult-Use Regulation**"). As of February 26, 2018, the Nevada Adult-Use Regulation has not been adopted by the NV DOT and the NV DOT is not seeking applications for adult-use marijuana or medical marijuana registration certificates.

License and Regulations

In the state of Nevada, only cannabis that is grown or produced in the state by a licensed establishment may be sold in the state. The Nevada regulatory regime is not a vertically integrated system and only permits the holder of a retail dispensary license and registration certificate to purchase marijuana from cultivation facilities, marijuana and marijuana products from product manufacturing facilities and marijuana from other retail stores, and allows the sale of marijuana and marijuana products to consumers.

A medical cultivation license permits its holder to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to medical marijuana dispensaries, facilities for the production of edible medical marijuana products and/or medical marijuana-infused products, or other medical marijuana cultivation facilities.

The medical product manufacturing license permits its holder to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana products or marijuana infused products to other medical marijuana production facilities or medical marijuana dispensaries.

Reporting Requirements

The state of Nevada uses a computerized track and trace system used to track commercial cannabis activity and seed-to-sale. Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements. See "*Compliance with Applicable State Law in the United States*".

Storage and Security

To ensure the safety and security of cannabis business premises and to maintain adequate controls against the diversion, theft, and loss of cannabis or cannabis products, Nevada state law requires the following:

(a) be an enclosed, locked facility;

(b) have a single secure entrance;

(c) train employees in security measures and controls, emergency response protocol, confidentiality requirements, safe handling of equipment, procedures for handling products, as well as the differences in strains, methods of consumption, methods of cultivation, methods of fertilization and methods for health monitoring;

(d) install security equipment to deter and prevent unauthorized entrances, which includes:

   a. devices that detect unauthorized intrusion which may include a signal system; and

   b. exterior lighting to facilitate surveillance;

(e) electronic monitoring must be in place, which includes:

   a. at least one call-up monitor that is 19 inches or more;

   b. a video printer capable of immediately producing a clear still photo from any video camera image;

   c. video cameras with a recording resolution of at least 704 x 480 which provides coverage of all entrances to and exits from limited access areas and all entrances to and exits from the building and which can identify any activity occurring in or adjacent to the building;

   d. a video camera at each point-of-sale location which allows for the identification of any person who holds a valid registry identification card, including, without limitation, a designated primary caregiver, purchasing medical marijuana;

   e. a video camera in each grow room which can identify any activity occurring within the grow room in low light conditions;

   f. a method for storing video recordings from the video cameras for at least thirty (30) calendar days;

   g. a failure notification system that provides an audible and visual notification of any failure in the electronic monitoring system;

   h. sufficient battery backup for video cameras and recording equipment to support at least five (5) minutes of recording in the event of a power outage; and

   i. security alarm to alert local law enforcement of unauthorized breach of security; and

(f) implement security procedures that:

   a. restrict access of the establishment to only those persons/employees authorized to be there;

   b. deter and prevent theft;

   c. provide identification (badge) for those persons/employees authorized to be in the establishment;

   d. prevent loitering;

   e. require and explain electronic monitoring; and

   f. require and explain the use of automatic or electronic notification to alert local law enforcement of an unauthorized breach of security.

Transportation

In Nevada, marijuana may only be transported from a licensed grow or production facility by a licensed marijuana distributor. Prior to transporting the marijuana or marijuana products, the distributor must complete a trip plan which includes: the agent name and registration number providing and receiving the marijuana; the date and start time of the trip; a description, including the amount, of the marijuana or marijuana products being transported; and the anticipated route of transportation.

During the transportation of marijuana or marijuana products, the licensed marijuana distributor agent must: (a) carry a copy of the trip plan with him or her for the duration of the trip; (b) have his or her marijuana establishment agent card in his or her immediate possession; (c) use a vehicle without any identification relating to marijuana and which is equipped with a secure lockbox or locking cargo area which must be used for the sanitary and secure transportation of marijuana, or marijuana products; (d) have a means of communicating with the marijuana establishment for which he or she is providing the transportation; and (e) ensure that all marijuana or marijuana products are not visible. After transporting marijuana or marijuana products a licensed marijuana distributor agent must enter the end time of the trip and any changes to the trip plan that was completed.

Each licensed marijuana distributor agent transporting marijuana or marijuana products must report any: (a) vehicle accident that occurs during the transportation to a person designated by the marijuana distributor to receive such reports within two (2) hours after the accident occurs; and (b) loss or theft of marijuana or marijuana products that occurs during the transportation to a person designated by the marijuana distributor to receive such reports immediately after the marijuana establishment agent becomes aware of the loss or theft. A marijuana distributor that receives a report of loss or theft pursuant to this paragraph must immediately report the loss or theft to the appropriate law enforcement agency and to the NV DOT. The distributor must report any unauthorized stop that lasts longer than two (2) hours to the NV DOT.

A marijuana distributor shall maintain the required documents and provide a copy of the documents required to the NV DOT for review upon request. Each marijuana distributor shall maintain a log of all received reports.

Employees of licensed marijuana distributors, including drivers transporting marijuana and marijuana products, must be 21 years of age or older and must obtain a valid marijuana establishment agent registration card issued by the NV DOT. If a marijuana distributor is co-located with another type of business, all employees of co-located businesses must have marijuana establishment agent registration cards unless the co-located business does not include common entrances, exits, break room, restrooms, locker rooms, loading docks, and other areas as are expedient for business and appropriate for the site as determined and approved by Department inspectors. While engaged in the transportation of marijuana and marijuana products, any person that occupies a transport vehicle when it is loaded with marijuana or marijuana products must have their physical marijuana establishment agent registration card in their possession.

All drivers must carry in the vehicle valid driver's insurance at the limits required by the State of Nevada and the NV DOT. All drivers must be bonded in an amount sufficient to cover any claim that could be brought, or disclose to all parties that their drivers are not bonded. Marijuana establishment agent registration cardholders and the licensed marijuana distributor they work for are responsible for the marijuana and marijuana product once they takes control of the product and leave the premises of the marijuana establishment.

There is no load limit on the amount or weight of marijuana and marijuana products that are being transported by a licensed marijuana distributor. Marijuana distributors are required to adhere to NV DOT regulations and those required through their insurance coverage. When transporting by vehicle, marijuana and marijuana product must be in a lockbox or locked cargo area. A trunk of a vehicle is not considered secure storage unless there is no access from within the vehicle and it is not the same key access as the vehicle. Live plants can be transported in a fully enclosed, windowless locked trailer or secured area inside the body/compartment of a locked van or truck so that they are not visible to the outside. If the value of the marijuana and marijuana products being transported by vehicle is in excess of $10,000 (the insured value per the shipping manifest), the transporting vehicle must be equipped with a car alarm with sound or have no less than two (2) of the marijuana distributor's marijuana establishment agent registration cardholders involved in the transportation. All marijuana and marijuana product must be tagged for purposes of inventory tracking with a unique identifying label as required by the NV DOT and remain tagged during transport. This unique identifying label should be similar to the stamp for cigarette distribution. All marijuana and marijuana product when transported by vehicle must be transported in sealed packages and containers and remain unopened during transport. All marijuana and marijuana product transported by vehicle should be inventoried and accounted for in the inventory tracking system. Loading and unloading of marijuana and marijuana products from the transporting vehicle must be within view of existing video surveillance systems prior to leaving the origination location. Security requirements are required for the transportation of marijuana and marijuana products.

Oasis Subsidiary Licenses

Oasis is licensed to operate in the City of Las Vegas as a Dual Use Marijuana Business, and in the State of Nevada as a Medical Marijuana Dispensary Establishment and a Retail Marijuana Store. City Trees Production is licensed to operate in the state of Nevada as a Medical Marijuana Production Establishment, a Retail Marijuana Product Manufacturing facility and a Retail Marijuana Distributor. City Trees Production is licensed to operate in the state of Nevada as a Medical Marijuana Cultivation Facility and a Retail Marijuana Cultivator. The table below lists the licenses issued to the Oasis Subsidiaries in respect of the Oasis Subsidiaries' operations in Nevada (including municipal licenses). Under applicable laws, the licenses permit the Oasis Subsidiaries to cultivate, manufacture, process, package, sell, and purchase marijuana pursuant to the terms of the licenses, which are issued by the NV DOT under the provisions of Nevada Revised Statutes section 453A, 453D, their associated sections of the Nevada Administrative Code and local regulations pertaining to cannabis businesses. All provisional licenses owned by Oasis are, as of the date hereof, active with the state of Nevada. All licenses are independently issued for each approved activity for use at the Oasis Subsidiaries facilities in Nevada.

All marijuana establishments must register with the NV DOT. If applications contain all required information and after vetting by officers, establishments are issued a medical marijuana establishment registration certificate. In a local governmental jurisdiction that issues business licenses, the issuance by the NV DOT of a medical marijuana establishment registration certificate is considered provisional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final registration certificates are valid for a period of one year and are subject to annual renewals after required fees are paid and the business remains in good standing. Renewal requests are typically communicated through email from NV DOT and include a renewal form. The renewal periods serve as an update for NV DOT on the licensee's status toward active licensure. Maintaining the licenses in good standing is critical to the success of a marijuana business in Nevada. Failure to adhere to the regulations can result in significant fines and penalties, including the suspension or revocation of the license.

The licenses are independently issued for each approved activity for use at Oasis Subsidiary facilities. The table below lists the licenses issued to the Oasis Subsidiaries in respect of their operations in Nevada.

<u>Licenses in the State of Nevada</u>

Holding Entity	Permit/License	Location City	Expiration/Renewal Date	Description
Serenity Wellness Center LLC dba Oasis Cannabis	Dual Use Marijuana License License #: M62-00010	Las Vegas	6/30/19	City of Las Vegas Dual-Use Marijuana Business License for Medical and Recreational Dispensary
	Medical Marijuana Registration Certificate: # 02916424476864783141 ME Code: D046		6/30/19	State of NV Final Registration Certificate – Medical Marijuana Dispensary Establishment

Holding Entity	Permit/License	Location City	Expiration/Renewal Date	Description
	Retail Marijuana Store License Taxpayer ID: 1017566771-001		6/30/19	State of NV – Retail Marijuana Store License
Serenity Wellness Products LLC dba City Trees	MM08 Production – GS License #: 105437	North Las Vegas	7/31/18* *Renews every 90 days	City of North Las Vegas Marijuana Production License
	Medical Marijuana Registration Certificate: # 40297970315350477547 Code: P024		6/30/19	State of NV Final Registration Certificate – Medical Marijuana Production Establishment
	Retail Marijuana Product Manufacturing License Taxpayer ID: 1029305234-001		6/30/19	State of NV Retail Marijuana Product Manufacturing License
	Retail Marijuana Distributor License Taxpayer ID: 1029305234-001 Code: T073		6/30/19	State of NV Retail Marijuana Distributor License
	Inter-jurisdictional Business License #: 2017305794		N/A	City of Henderson license required to sell to dispensaries within its jurisdiction
	Medical Marijuana Production Facility OLV Marijuana Production License #: M65-00015		N/A	City of Las Vegas license required to sell to dispensaries within its jurisdiction
Serenity Wellness Growers LLC dba City Trees	MM02 Cultivation - GS License #: 105436	North Las Vegas	7/31/18* *Renews every 90 days	City of North Las Vegas Marijuana Cultivation License
	Medical Marijuana Registration Certificate: 36161311931874315998 Code: C039		6/30/19	State of NV Medical Marijuana Cultivation Facility Registration Certificate
	Retail Marijuana Cultivator License Taxpayer ID: 1029305170-001		6/30/19	State of NV Retail Marijuana Cultivator License

Nevada License and regulations

The retail dispensary licenses permit the Oasis Subsidiaries to purchase marijuana from Nevada licensed cultivation facilities, marijuana and marijuana products from Nevada licensed product manufacturing facilities and marijuana from other Nevada licensed retail stores, and allows the sale of marijuana and marijuana products to consumers. No marijuana or marijuana infused products may be brought into Nevada from outside of Nevada. Unlicensed marijuana activities are subject to harsh criminal penalties under Nevada state law.

The medical cultivation licenses permit the Oasis Subsidiaries to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell marijuana and related supplies to Nevada licensed medical marijuana dispensaries, facilities for the production of edible medical marijuana products and/or medical marijuana-infused products, or other medical marijuana cultivation facilities.

The medical product manufacturing license permits the Oasis Subsidiaries to acquire, possess, manufacture, deliver, transfer, transport, supply, or sell edible marijuana products or marijuana infused products to other Nevada licensed medical marijuana production facilities or medical marijuana dispensaries.

Nevada Reporting Requirements

The state of Nevada uses METRC as the state's computerized T&T system for seed-to-sale. Individual licensees whether directly or through third-party integration systems are required to push data to the state to meet all reporting requirements. The Oasis Subsidiaries have designated an in-house computerized seed to sale software that integrate with METRC via API (GreenBits), which captures the required data points for cultivation, manufacturing and retail as required in Nevada Revised Statutes section 453A.

Compliance with Applicable State Law in the United States

The Company, via the Oasis Subsidiaries, is classified as having a "direct" involvement in the U.S. marijuana industry and is in compliance with applicable licensing requirements and the regulatory framework enacted by the state of Nevada. Neither the Company nor the Oasis Subsidiaries are subject to any citations or notices of violation with applicable licensing requirements and the regulatory framework enacted by each applicable U.S. state which may have an impact on its licenses, business activities or operations.

The Company has in place a detailed compliance program overseen and maintained by external state and local regulatory/compliance counsel. The Company's internal compliance team (consisting of managers for each respective business unit) implements the compliance program.

The Company's internal compliance team oversees training for all employees, including on the following topics:

- compliance with state and local laws
- safe cannabis use
- dispensing procedures
- security and safety policies and procedures
- inventory control
- quality control
- transportation procedures

The Company's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Only authorized, properly trained employees are allowed to access the Company's computerized seed-to-sale system.

The Company's internal compliance team, together with external state and local regulatory/compliance counsel, monitors all compliance notifications from the regulators and inspectors in each market, timely resolving any issues identified. The Company keeps records of all compliance notifications received from the state regulators or inspectors and how and when the issue was resolved.

Further, the Company has created comprehensive standard operating procedures that include detailed descriptions and instructions for receiving shipments of inventory, inventory tracking, recordkeeping and record retention practices related to inventory, as well as procedures for performing inventory reconciliation and ensuring the accuracy of inventory tracking and recordkeeping. The Company maintains accurate records of its inventory at all licensed facilities. Adherence to the Company's standard operating procedures is mandatory and ensures that the

Company's operations are compliant with the rules set forth by the applicable state and local laws, regulations, ordinances, licenses and other requirements. The Company ensures adherence to standard operating procedures by regularly conducting internal inspections and ensures that any issues identified are resolved quickly and thoroughly.

In January 2018, United States Attorney General, Jeff Sessions rescinded the Cole Memorandum and thereby created a vacuum of guidance for enforcement agencies and the Department of Justice.[1] As an industry best practice, despite the recent rescission of the Cole Memorandum, the Company continues to do the following to ensure compliance with the guidance provided by the Cole Memorandum:

- Ensure the operations of its subsidiaries are compliant with all licensing requirements that are set forth with regards to cannabis operation by the applicable state, county, municipality, town, township, borough, and other political/administrative divisions. To this end, the Company retains appropriately experienced legal counsel to conduct the necessary due diligence to ensure compliance of such operations with all applicable regulations;

- the Company only works through licensed operators, which must pass a range of requirements, adhere to strict business practice standards and be subjected to strict regulatory oversight whereby sufficient checks and balances ensure that no revenue is distributed to criminal enterprises, gangs and cartels; and

- the Company conducts reviews of products and product packaging to ensure that the products comply with applicable regulations and contain necessary disclaimers about the contents of the products to prevent adverse public health consequences from cannabis use and prevent impaired driving.

The Company, together with external state and local regulatory/compliance counsel, will continue to monitor compliance on an ongoing basis in accordance with its compliance program and standard operating procedures. While the Company's operations are in full compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under United States federal law. For the reasons described above and the risks further described in the "*Risk Factors*" section below, there are significant risks associated with the business of the Company. Readers are strongly encouraged to carefully read all of the risk factors contained in the "*Risk Factors*" section below.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Special Warrants, after deducting CAD$1,049,029, being the aggregate Agent's Fee and CAD$300,000, being the expenses of the Offering, was CAD$12,288,830. The Company will not receive any additional proceeds from the deemed exercise of the Special Warrants. As at the date hereof, the current cash balance of the Company is approximately **$**1,227,023 and the Company has no cash equivalents.

The net proceeds from the Offering were used, or will be used, as applicable, as follows:

Use of Proceeds	**Allocated Funds($)**
Acquisition of Alternative Solutions	CAD$8,260,260[(1)]
General Working Capital	CAD$4,028,570
Total:	CAD$12,288,830

Notes:

(1) The cash portion of the Closing Consideration for the Acquisition was $6,200,000. On June 27, 2018, the funds held in escrow from the Special Warrant Offering were converted from CAD to USD at a rate of CAD$1.00 for USD$1.33230 and applied to the cash portion of the Closing Consideration.

[1] U.S. Dept. of Justice. (2013). *Memorandum for all United States Attorneys re: Guidance Regarding Marijuana Enforcement.* Washington, DC: US Government Printing Office. Retrieved from https://www.justice.gov/iso/opa/resources/3052013829132756857467.pdf.

DIVIDEND POLICY

The Company has not declared dividends on its Common Shares for each of the three most recently completed financial years nor in its current financial year. The Company does not have any restrictions that could prevent it from paying dividends. The Company does not intend to pay dividends on its Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Board of Directors and will depend on the financial condition, business environment, operating results, capital requirements, any contractual restrictions on the payment of dividends and any other factors that the Board of Directors deems relevant.

MANAGEMENT'S DISCUSSION AND ANALYSIS

*The management's discussion and analysis of financial condition of the Company as at and for the years ended May 31, 2017, May 31, 2016 and May 31, 2015, and as at and for the three and nine month periods ended February 28, 2018 (the "**MD&A**") are attached hereto as Schedule "B" to this Prospectus and should be read in conjunction the Consolidated Financial Statements of the Company included in this Prospectus. The MD&A is presented as of the date of this Prospectus and is current to that date unless otherwise stated. The financial information presented in the MD&A is derived from the Consolidated Financial Statements of the Company. The MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" in this Prospectus.*

*The management's discussion and analysis of financial condition of Alternative Solutions as at and for the years ended December 31, 2017 and December 31, 2016 and as at and for the three month periods ended March 31, 2018 and March 31, 2017 (the "**Alternative Solutions MD&A**") are attached hereto as Schedule "D" and should be read in conjunction the Consolidated Financial Statements of Alternative Solutions included in this Prospectus. The Alternative Solutions MD&A is presented as of the date of this Prospectus and is current to that date unless otherwise stated. The financial information presented in the Alternative Solutions MD&A is derived from the Consolidated Financial Statements of Alternative Solutions. The Alternative Solutions MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" in this Prospectus.*

Unless otherwise stated all dollar amounts in the MD&A and Alternative Solutions MD&A are in United States dollars (other than per share amounts and operating statistics).

DESCRIPTION OF SECURITIES BEING DISTRIBUTED

Authorized Share Capital

The authorized capital of the Company consists of 250,000,000 Common Shares and 20,000,000 shares of preferred stock issuable in series, which may contain the rights, privileges and restrictions as determined by the Board. As at July 31, 2018, there were a total of 73,995,795 Common Shares issued and no preferred shares issued and outstanding.

Special Warrants

The Special Warrants were issued pursuant to and are governed by the Special Warrant Indenture. The following summary of certain provisions of the Special Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Special Warrant Indenture, a copy of which is available on the Company's EDGAR profile at www.sec.gov or which may be obtained on request without charge from the Company at 11767 South Dixie Highway, Suite 115, Miami, Florida, 33156.

Each Special Warrant will automatically be exercised into one Unit on behalf of, and without any further action or payment required on the part of, the holder thereof at 5:00 (Toronto time) on the Deemed Exercise Date (the "**Deemed Exercise Time**"), being the earlier of: (i) the fifth business day after the date a Receipt is issued for a final prospectus qualifying the distribution of the Unit Shares and the Warrants issuable upon exercise of the Special Warrants by the securities regulatory authorities in each of the Qualifying Jurisdictions; or (ii) October 28, 2018.

The Company has agreed with the Agent to continue to use its commercially reasonable best efforts to obtain the Receipt as soon as possible by August 20, 2018.

The Special Warrant Indenture provides for adjustment in the number of Units issuable upon the deemed exercise of the Special Warrants upon the occurrence of certain events prior to the Deemed Exercise Time, including: (i) the subdivision, re-division or change of the outstanding Common Shares into a greater number of Common Shares; (ii) the reduction, combination or consolidation of the outstanding Common Shares into a lesser number of Common Shares; (iii) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend; (iv) the fixing of a record date for the distribution to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled, for a period expiring not more than 45 days after such record date, to subscribe for or acquire Common Shares (or securities exchangeable for or convertible into Common Shares) at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the Current Market Price (as such term is defined in the Special Warrant Indenture) for the Common Shares on such record date; and (v) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the Common Shares of (a) securities of the Company including rights, options or warrants to acquire shares of any class or securities exchangeable for or convertible into or exchangeable into any such shares or property or assets and including evidence of its indebtedness; or (b) any property or other assets.

The Special Warrant Indenture also provides for adjustments in the number of Units issuable upon the deemed exercise of the Special Warrants prior to the Deemed Exercise Time, in the event of the following additional events: (i) a reclassification of the Common Shares, a change in the Common Shares into other shares or securities, or a capital reorganization of the Company other than as described in the foregoing, including for certainty a liquidation, dissolution or winding up of the Company, a consolidation, amalgamation, arrangement or merger of the Company with or into any other body corporate, trust, partnership or other entity; or (ii) a transfer, sale or conveyance of the property and assets of the Company as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity.

Notwithstanding the foregoing, no adjustment shall be made in the acquisition rights attached to the Special Warrants if the issue of Common Shares is being made pursuant to or in connection with: (i) any stock option plan, share incentive plan or restricted share plan or share purchase plan in force from time to time for directors, officers, employees, consultants or other service providers of the Company, which plan has been approved by the Board of Directors of the Company; or (ii) the exchange, retraction or redemption or satisfaction of existing securities and instruments issued at the Closing Date of the Offering.

The Company has agreed that so long as any Special Warrants remain outstanding it will give not less than 14 calendar days' prior written notice in the manner provided for in the Special Warrant Indenture to the Special Warrant Agent, each holder of Special Warrants and to the Agent of any event which requires an adjustment pursuant to the Special Warrant Indenture. Such notice is to contain the particulars of such event in reasonable detail and, if determinable, the required adjustment. The Company has further agreed that it shall promptly, as soon as the adjustment calculations are reasonably determinable, file a certificate of the Company with the Special Warrant Agent, on which the Special Warrant Agent may act and rely, showing how such adjustment are to be computed and give notice to the holders of Special Warrants and the Agent of such adjustment computation.

No fractional Unit will be issuable upon the deemed exercise of any Special Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Special Warrants do not have any voting or pre-emptive rights or any other rights that a holder of Common Shares would have.

From time to time, the Company and the Special Warrant Agent may amend or supplement the Special Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Special Warrants. Any amendment or supplement to the Special Warrant Indenture that adversely affects the interests of the holders of the Special Warrants may only be made by "extraordinary resolution", which is defined in the Special Warrant Indenture as a resolution proposed to be passed as an extraordinary resolution at a meeting duly convened for that purpose and held in accordance with the provisions of the Special Warrant Indenture, and carried by not less than 66 2/3% of the votes cast on such resolution. A quorum for such meeting shall consist of two or more persons present in person and owning or representing by proxy not less than 25% of the aggregate number of the then outstanding Special Warrants.

Common Shares

Holders of Common Shares are entitled to receive notice of any meetings of shareholders of the Company and to attend and to cast one vote per Common Share at all such meetings. Holders of Common Shares do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of the Common Shares entitled to vote in any election of directors may elect all directors standing for election. Holders of Common Shares are entitled to receive on a pro rata basis such dividends, if any, as and when declared by the Board of Directors of the Company at its discretion from funds legally available therefor and upon the liquidation, dissolution or winding up of the Company are entitled to receive on a pro rata basis the net assets of the Company after payment of debts and other liabilities, in each case subject to the rights, privileges, restrictions and conditions attaching to any other series or class of shares ranking senior in priority to or on a pro rata basis with the holders of Common Shares with respect to dividends or liquidation. The Common Shares do not carry any pre-emptive, subscription, redemption or conversion rights, nor do they contain any sinking or purchase fund provisions. The common stock is not convertible or redeemable and has no preemptive, subscription or conversion rights. There are no conversions, redemption, sinking fund or similar provisions regarding the Common Shares.

Warrants

The Warrants will be issued pursuant to the terms of the Warrant Indenture. The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is subject in its entirety to the detailed provisions of the Warrant Indenture, a copy of which is available on the Company's EDGAR profile at www.sec.gov or may be obtained on request without charge from the Company at 11767 South Dixie Highway, Suite 115, Miami, Florida, 33156. A register of holders of Warrants will be maintained at the principal offices of the Warrant Agent in Calgary, Alberta.

Each whole Warrant will entitle the holder to purchase one Warrant Share at a price of CAD$0.65 per Warrant Share, subject to adjustment in certain circumstances, by no later than 5:00 p.m. (Toronto time) on the date that is 36 months from the Listing Date, after which time the Warrants will expire and become null and void.

The Warrant Indenture provides for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events, including: (i) the subdivision, re-division or change of the outstanding Common Shares into a greater number of Common Shares; (ii) the reduction, combination or consolidation of the outstanding Common Shares into a lesser number of Common Shares; (iii) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than upon exercise of Warrants); (iv) the fixing of a record date for the distribution to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares, or securities exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the Current Market Price (as such term is defined in the Warrant Indenture), for the Common Shares on such record date; and (v) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the Common Shares of: (a) securities of any class, whether of the Company or any other trust (other than Common Shares), (b) rights, options or warrants to subscribe for or purchase Common Shares (or other securities convertible into or exchangeable for Common Shares), (c) evidences of its indebtedness, or (iv) any property or other assets.

The Warrant Indenture also provides for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares or a capital reorganization other than as described above; (ii) consolidations, amalgamations, arrangements, or mergers of the Company with or into another entity; or (iii) the sale or conveyance of the property or assets of the Company as an entirety or substantially as on entirety to any other entity.

Notwithstanding the foregoing, no adjustment shall be made in the acquisition rights attached to the Warrants if the issue of Common Shares is being made pursuant to the Warrant Indenture or in connection with: (i) any share incentive plan or restricted share plan or share purchase plan in force from time to time for directors, officers, employees, consultants or other service providers of the Company; or (ii) the satisfaction of existing instruments issued at the Closing Date.

The Company has agreed that, so long as any Warrant remains outstanding, it will give notice to the Warrant Agent and to the holders of Warrants of its intention to fix a record date that is prior to the expiry date of the Warrants for any matter for which an adjustment may be required pursuant to the Warrant Indenture. Such notice is to specify the particulars of such event and the record date for such event, provided that the Company shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which the notice is given. The Company will use its reasonable commercial efforts to give notice not less than 14 days prior to such applicable record date. If notice has been given and the adjustment is not then determinable, the Company shall promptly, after the adjustment is determinable, file with the Warrant Agent a computation of the adjustment and give notice to the holders of Warrants of such adjustment computation.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights that a holder of Common Shares would have.

From time to time, the Company and the Warrant Agent may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interests of the holders of the Warrants may only be made by "extraordinary resolution", which is defined in the Warrant Indenture as a resolution proposed at a meeting of holders of Warrants duly convened for that purpose and held in accordance with the provisions of the Warrant Indenture at which there are present in person or by proxy holders of Warrants holding at least 10% of the aggregate number of all then outstanding Warrants and passed by the affirmative votes of holders of Warrants holding not less than 66 2/3% of the aggregate number of all then outstanding Warrants represented at the meeting and voted on the poll upon such resolution. A quorum for such meeting shall consist of holders of Warrants present in person or by proxy and holding at least 10% of the aggregate number of all the then outstanding Warrants.

Contractual Right of Rescission

The Company has granted each holder of a Special Warrant a contractual right of rescission of the Offering prospectus-exempt transaction under which the Special Warrant was initially acquired. The contractual right of rescission provides that if a holder of a Special Warrant who acquires another security of the Company on exercise of the Special Warrant as provided for in the Prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of the Prospectus or an amendment to the Prospectus containing a misrepresentation, (a) the holder is entitled to rescission of both the holder's exercise of its Special Warrant and the Offering; (b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the underwriter or issuer, as the case may be, on the acquisition of the Special Warrant; and (c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

CONSOLIDATED CAPITALIZATION

The following table summarizes the Company's cash, cash equivalents and short-term investments and capitalization since May 31, 2017 (the Company's year-end), February 28, 2018, (the date of the most recent financial statements included in the prospectus) and as of the date of this Prospectus:

Description	As at May 31, 2017	As at February 28, 2018	Adjusted to give effect to the Offering and the deemed exercise of the Special Warrants	Adjusted to give effect to the Offering and the deemed exercise of the Special Warrants and the Acquisition
Cash and cash equivalents	78,310	22,733	8,911,853	2,711,853
Debt (including current Maturities) Convertible	1,826,478	2,794,538	2,794,538	6,794,538

Description	As at May 31, 2017	As at February 28, 2018	Adjusted to give effect to the Offering and the deemed exercise of the Special Warrants	Adjusted to give effect to the Offering and the deemed exercise of the Special Warrants and the Acquisition
Debentures				
Notes				
Warrant liability				
Total Liabilities	2,018,478	3,410,112	3,410,112	7,410,112
Total Equity	(1,886,538)	(1,300,123)	7,588,997	13,588,997
Total Capitalization	131,940	2,109,989	4,178,885	6,178,885

OPTIONS TO PURCHASE COMMON SHARES

The Company has not granted any options to any employees, directors or consultants. The Company has granted restricted shares to certain executive officers as part of their respective employment agreements. Upon vesting, the restricted shares become unrestricted Common Shares. The following table summarizes the restricted shares held by the following groups of individuals along with the material provisions of each type of security:

Holder of Options	Number of Optionees	Number of Restricted Shares	Exercise Price	Vesting Date
Executive Officers and Former Executive Officers(1)	2 1	550,000 25,000	N/A N/A	July 1, 2019 December 1, 2018
Directors (other than those who are also executive officers) and Former Directors(2)	1	700,000(3)	N/A	July 24, 2018
Current and Former employees(4)	Nil	Nil	Nil	Nil
Consultants	Nil	Nil	Nil	Nil
All other persons or companies	1	250,000(5)	Nil	November 15, 2017
Total	4	1,525,000	N/A	N/A

Notes:

(1) Includes executive officers and former executive officers of all subsidiaries of the Company.
(2) Includes directors (other than those who are also executive officers) and former directors of all subsidiaries of the Company.
(3) On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, 700,000 restricted shares in recognition of Mr. Glashow's efforts, through Star Associates, LLC, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions.
(4) Includes employees and former employees of all subsidiaries of the Company.
(5) Restricted Common Shares issued as a commitment fee to enter into a purchase agreement and prepare all of the related transaction documents.

PRIOR SALES

Common Shares

The following table summarizes the sales of Common Shares of the Company for the twelve (12) month period prior to the date of this Prospectus:

Date of Issuance	Description of Security	Price per Security	Number of Securities
September 20, 2017	Common Shares	$0.07	1,500,000
September 25, 2017	Common Shares	$0.07[1]	4,500,000
November 15, 2017	Common Shares	N/A[2]	250,000
February 7, 2018	Common Shares	$0.27[3]	3,480,000
February 21, 2018	Common Shares	$0.27[4]	320,000
February 28, 2018	Common Shares	$0.27[4]	260,000
March 2, 2018	Common Shares	N/A[5]	117,000
March 12, 2018	Common Shares	$0.3125[6]	5,179,028
March 30, 2018	Common Shares	$0.27[4]	1,413,000
June 27, 2018	Common Shares	$1.00[7]	6,000,000
July 24, 2018	Common Shares	N/A[8]	700,000

Notes:

(1) Conversion of convertible notes.

(2) Restricted Common Shares issued as a commitment fee to enter into a purchase agreement and prepare all of the related transaction documents.

(3) On February 7, 2018, the Company received gross proceeds of $1,087,500 from a private offering of securities (the "**WestPark Offering**") of 800,000 units at a price of $1.25 per unit. Each unit consisted of four Common Shares and one warrant to purchase one Common Share at $0.75 per Common Share.

(4) Isssued as part of the WestPark Offering.

(5) Issued to Starcity Capital, LLC to assist in its investor relations for a period of three months.

(6) Issued on conversion of certain convertible notes by Jeffrey Binder, Frank Koretsky and Newcan.

(7) Issued as partial consideration for the Acquisition.

(8) On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, 700,000 restricted shares in recognition of Mr. Glashow's efforts, through Star Associates, LLC, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions.

Warrants

The following table summarizes the sales of Warrants of the Company for the twelve (12) month period prior to the date of this Prospectus:

Date of Issuance	Description of Security	Price per Security	Number of Securities
November 15, 2017	Warrants	$0.75	350,000
February 7, 2018	Warrants	$0.75	870,000[1]
February 9, 2018	Warrants	$0.75	400,000
February 16, 2018	Warrants	$0.75	40,000
February 21, 2018	Warrants	$0.75	80,000[1]
February 26, 2018	Warrants	$0.75	25,000
February 28, 2018	Warrants	$0.75	65,000[1]
February 28, 2018	Warrants	$1.25	152,250[2]
March 2, 2018	Warrants	$0.75	412,500
March 30, 2018	Warrants	$0.75	353,250[1]
March 30, 2018	Warrants	$1.25	205,238[2]
May 9, 2018	Warrants	$0.75	25,000
May 14, 2018	Warrants	$0.60	1,875,000
June 20, 2018	Warrants	$0.60	1,250,000

Notes:

(1) Isssued as part of the WestPark Offering.

(2) Five-year warrant issued to WestPark Capital, Inc. to purchase units of the Company on the same terms as those offered in the WestPark Offering. Each unit consists of four Common Shares and one warrant to purchase a Common Share for $0.75 per Common Share.

Special Warrants

The following table summarizes the sales of Special Warrants of the Company for the twelve (12) month period prior to the date of this Prospectus:

Date of Issuance	Description of Security	Price per Security	Number of Securities
June 20, 2018	Special Warrants	CAD$0.45(1)	28,973,019
June 20, 2018	Corporate Finance Fee Special Warrants	CAD$0.45(1)	1,448,651

Notes:

(1) Isssued as part of the Offering.

Broker Warrants

The following table summarizes the sales of Broker Warrants of the Company for the twelve (12) month period prior to the date of this Prospectus:

Date of Issuance	Description of Security	Price per Security	Number of Securities
June 20, 2018	Broker Warrants	0.00(1)	2,317,842

Notes:

(1) Isssued as part of the Offering.

Convertible Debt

The following table summarizes the sales of debt securities of the Company that are convertible into Common Shares for the twelve (12) month period prior to the date of this Prospectus:

Date of Issuance	Description of Security	Price per Security	Principal Amount
August 23, 2017	10% Convertible Note(1)	$0.25	$257,817
October 9, 2017	10% Convertible Note(1)	$0.25	$69,521
November 15, 2017	5% Senior Convertible Promissory Note	$0.3125	$330,000
January 5, 2018	10% Convertible Note(1)	$0.3125	$280,360
February 5, 2018	8% Convertible Promissory Note	$0.3125	$550,000
February 12, 2018	8% Convertible Promissory Note	$0.3125	$55,000
February 20, 2018	8% Convertible Promissory Note	$0.3125	$31,250
April 6, 2018	10% Convertible Note(4)	$0.3125	$37,500
May 14, 2018	8% Convertible Debenture(5)	$0.27	$750,000
June 20, 2018	8% Convertible Debenture(5)	$0.27	$500,000

Notes:

(1) Convertible notes issued to Mr. Binder and Mr. Koretsky for outstanding debts owed by the Company. These were converted to Common Shares on March 12, 2018.

(2) Binder Convertible Note. See "*Director Indebtedness*".

(3) This convertible debenture was convertible at $0.40 per share. As a result of the anti-dilution language in the convertible debenture and Offering and the Acquisition, the conversion price was reduced to $0.27 per share.

Trading Price and Volume

The shares of the Company are currently listed on the OTCQB under the trading symbol "CLSH" and commenced trading on the OTCQB on September 12, 2006. The following table sets forth the reported high and low prices and the trading volume for the shares for each month for the twelve (12) month period prior to the date of this Prospectus:

Date	High (US$)	Low (US$)	Volume
July 2018	0.80	0.65	1,355,669
June 2018	0.75	0.53	408,489
May 2018	0.72	0.54	305,998
April 2018	0.75	0.46	242,799
March 2018	0.79	0.55	222,135
February 2018	0.86	0.40	432,398
January 2018	0.94	0.55	954,991
December 2017	0.94	0.41	1,281,570
November 2017	0.42	0.31	205,899
October 2017	0.39	0.30	151,224
September 2017	0.50	0.27	248,841
August 2017	0.57	0.24	546,358
July 2017	0.50	0.15	1,183,908

PRINCIPAL SHAREHOLDERS

To the knowledge of the directors and officers of the Company, as of the date of this Prospectus no person beneficially owns or exercises control or direction over Common Shares carrying more than 10% of the votes attached to Common Shares except for the shareholders listed in the table below.

To our knowledge, none of the shares listed below are held under a voting trust or similar agreement. To our knowledge, there are no pending arrangements, including any pledges by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company. There were 73,995,795 shares of common stock issued and outstanding on July 31, 2018.

Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percentage of Class on a Non-Diluted Basis, prior to Conversion of Special Warrants	Percentage of Class on a Fully-Diluted Basis(2)
Jeffrey I. Binder	8,473,527	11.45%	5.45%
Frank Koretsky	17,522,461(3)	23.68%	11.29%

Notes:

(1) All share ownership is both of record and beneficial. Except as otherwise indicated, to our knowledge, the persons named in this table have sole voting, investment and dispositive power with respect to all shares of common stock listed.

(2) Based on there being 155,364,441 Common Shares issued and outstanding on a fully-diluted basis.

(3) Includes 12,276,253 Common Shares owned by Mr. Koretsky and 5,246,208 Common Shares owned by Newcan, an entity that is wholly owned by Mr. Koretsky. Excludes shares issuable upon the conversion of interest accrued and accruing on the outstanding convertible promissory note and demand convertible notes issued to Newcan.

DIRECTORS AND EXECUTIVE OFFICERS

The Company currently does not have nominating or compensation or audit committees, or committees performing similar functions nor does the Company have a written nominating, audit or compensation committee charter. The Company's Board of Directors does not believe that it is necessary to have such committees because it believes the functions of such committees can be adequately performed by the entire Board of Directors.

All directors of the Company hold office until the next annual meeting of the stockholders or until their successors have been elected and qualified. The officers of the Company are appointed by the Board of Directors and hold office until their death, resignation or removal from office. To date, the directors and executive officers of the Company, their ages, positions held, and duration as such, are as follows:

Name, State and Country of Residence	Position	Date First Elected or Appointed	Occupation
Jeffrey Binder *Florida, United States*	*Chairman, CEO and Director*[1][2]	2014	Mr. Binder was one of the individuals who founded CLS Labs in 2014 and he has served as its Chairman, President, Chief Executive Officer and a director since its inception. Upon CLS Labs' acquiring control of the Company on November 12, 2014, Mr. Binder was appointed Chairman, President, Chief Executive Officer and a director of the Company. He continues to serve in these roles. Since 2008, Mr. Binder has served as founder, Chairman and President of Power 3 Network, Inc., a company that develops websites and back offices for home-based businesses. In 2003, Mr. Binder founded Infinity 8, Inc., a software development company, where he served as its Chairman, Treasurer and a director until 2011. In addition to his employment history, Mr. Binder has invested in and mentored several start-up and mid-stage companies through his private holding company, JeMJ Financial Services, Inc., which he formed in 1988 and for which he serves as Chairman, President and a director. Through JeMJ, Mr. Binder invested in GGL Industries, Inc., a private holding company that owned Sterling Yacht and Classic Motor Carriages, as well as various other companies, and had extensive real estate holdings. Mr. Binder received his Juris Doctorate from the National Law Center, George Washington University, in 1971, where he received the honor of membership in the Order of the Coif. He also served as a legislative assistant to Adlai Stevenson II, a United States Senator for Illinois, and practiced Law at Sonnenschein Nath & Rosenthal, LLP, Chicago, Illinois for five years.
Frank Tarantino *Las Vegas, Nevada*	*Chief Financial Officer*[2]	2018	Mr. Tarantino has more than 10 years of executive management experience in private companies. Mr. Tarantino was the Controller and Acting CFO of Ira Green Holdings, Inc., a manufacturer, distributor and retailer of insignia and tactical products to all branches of the U.S. military, during 2017. Between 2015 and 2016, Mr. Tarantino served as the CFO at Duto Textiles, one of the largest dyers, printers, finishers and distributors of fabric and textile products in the United States. From 2008 until 2015, Mr. Tarantino was COO/CFO of Wild Things, LLC, a manufacturer of extreme, cold weather clothing and climbing gear used primarily by elite mountain climbers and the US Military, where he managed all financial functions, all aspects of operations, assisted with the creation, development and production of the WT Tactical® military clothing layering system, developed and implemented the WT

Name, State and Country of Residence	Position	Date First Elected or Appointed	Occupation
			Tactical® fire retardant military clothing line, and implemented an operating system which resulted in the consolidation of all design, purchasing, production management and financial functions. Mr. Tarantino earned a Bachelor of Science in Business Administration with a double major in Accounting and Finance from Babson College and is a Certified Public Accountant. Between 1983 and 1986, he worked for the accounting firm of Coopers & Lybrand, now PricewaterhouseCoopers, in the audit division.
Andrew Glashow *Rhode Island, United States*	*Director*(1)	2017	Mr. Glashow is a founding partner of New World Merchant Partners LLC and has served as a Managing Director since its inception. Mr. Glashow is an investment banker specializing in microcap transactions in the $5 million to $50 million range. He has in excess of twenty years of experience in the capital markets and in all phases of business start-up and growth, including feasibility studies, business plans, equity and debt funding, private placements, reverse mergers and IPOs. Mr. Glashow has worked with many investment banking firms and maintains close relationships with decision makers at several of them. Prior to founding New World Merchant Partners, he was a partner in STAR Associates, a corporate finance firm specializing in the placement of capital for small and emerging growth companies. Mr. Glashow has served as CEO and President of multiple companies which he helped capitalize. Mr. Glashow is a graduate of the University of New Hampshire's Whitemore School of Business and Economics.
Frank Koretsky *Florida, United States*	*Director*(1)	2014	Mr. Koretsky is a founder and has served as a director of CLS Labs since its formation in 2014. Upon consummation of the Merger, Mr. Koretsky was also appointed a director of the Company. It is expected that Mr. Koretsky will serve as a consultant to the Company in the future. Since 1995, Mr. Koretsky has served as the President of East Coast News Corp., a leading company in the adult product distribution industry. As a result of Mr. Koretsky's business experience, he brings a strong background in management, marketing and branding to the Company.
Ben Sillitoe *Las Vegas, Nevada*	*Chief Executive Officer of CLS Nevada, Inc.*(2)	2018	Mr. Sillitoe has been a leader in the local Las Vegas cannabis industry since its inception, having served on the Board of Directors for the Nevada Dispensary Association (NDA) for nearly two years. The NDA is the most influential cannabis industry association in Nevada with over 80% of state-licensed dispensaries in its membership. Mr. Sillitoe is often interviewed for news stories and articles,

Name, State and Country of Residence	Position	Date First Elected or Appointed	Occupation
			and is a frequent speaker at conferences, meetings, and events. Some notable previous speaking engagements include the Marijuana Business Conference and International Management Accountants annual conferences. Mr. Sillitoe earned his Bachelor of Science in Business Administration with a major in Managerial Finance from UNLV.
Don Decatur *Las Vegas, Nevada*	*Chief Operating Officer of CLS Nevada, Inc.*(2)	2018	Mr. Decatur was the Director of Operations of Alternative Solutions, L.L.C., which CLS acquired in June 2018 between 2016 and the date of the Acquisition. Between 2015 and 2016, Mr. Decatur was the Director of Product Development for Nevada Medical Group, LLC, d/b/a Body and Mind (BaM), a cannabis company. From 2010 until 2015, Mr. Decatur owned and served as CEO of SinCity Style, LLC, a cannabis merchandise and apparel company. Mr. Decatur has over 18 years of experience in the cannabis and horticulture business. He is responsible for the creation of numerous strains of cannabis, has won numerous industry awards, and has been honored by High Times magazine for creating two "Top Ten Strains of the Year"

Notes:

(1) Each director's term of office will expire at the next annual general meeting of the shareholders.

(2) Messrs. Binder and Tarantino work full time for the Company and Messrs. Sillitoe and Decatur work full time for CLS Nevada, Inc. Each is an employee of the Company or one of its subsidiaries. Messrs. Binder, Stillitoe and Decatur have entered into a Confidentiality, Non-Compete and Property Rights Agreement with the Company. Mr. Tarantino's employment agreement is in the process of finalization. Messrs. Glashow and Koretsky devote time to the Company solely as directors and are neither employees or independent contractors of the Company. Messrs. Glashow and Koretsky have not entered into a non-competition and non-disclosure agreement with the Company.

To the knowledge of the Company, as of the date hereof, all directors and senior officers of the Company as a group, directly or indirectly beneficially own, exercise control or direction over 27,270,988 shares, or approximately 36.85% of the Company's issued and outstanding shares (on a non-fully diluted basis).

Corporate Cease Trade Orders

There have been no cease trade orders.

Corporate Bankruptcies

None of the Company's directors or executive officers has, within the 10 years prior to the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or comprise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, been a director or executive officer of any company, that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or comprise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Penalties or Sanctions

None of our directors, officers or principal shareholders are, or have been within the last 10 years, the subject of any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or have entered into a settlement agreement with a Canadian securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

Conflicts of Interest

The Company's directors and officers may serve as directors or officers of other companies or have significant shareholdings in other companies and, to the extent that such other companies may participate in ventures in which the Company may participate, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such a participation or such terms. The directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosures by the directors of conflicts of interest and the Company will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors and officers. All such conflicts will be disclosed by such directors or officers in accordance with applicable laws and shall govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law. The directors and officers of the Company are not aware of any such conflicts of interests.

EXECUTIVE COMPENSATION

Executive Compensation

The Company does not anticipate making any material changes to the compensation it currently pays to its executives.

The particulars of compensation paid to the following persons:

(a) Jeffrey Binder, Chairman & Chief Executive Officer

(b) Alan Bonsett, Chief Operating Officer (resigned in November 2017)

(c) David Lamadrid, President & Chief Financial Officer (resigned effective July 13, 2018)

who we will collectively refer to as our named executive officers ("**NEOs**"), of the Company, and the directors of the Company, for the financial years ended May 31, 2017, and 2016, are set out in the following summary compensation table:

TABLE OF COMPENSATION EXCLUDING COMPENSATION SECURITIES								
Name and Position	**Year**	**Salary, consulting fee, retainer or commission ($)**	**Bonus ($)**	**Committee or Meeting Fees ($)**	**Option Awards (#)**	**Value of perquisites ($)**	**All Other Compensation ($)**	**Total ($)**
Jeffrey Binder Chairman, Chief Executive Officer[(1)]	2017	150,000	-	-	-	-	-	150,000
	2016	150,000	-	-	-	-	-	150,000
Alan Bonsett Former Chief Operating Officer[(2)]	2017	150,000	-	-	-	9,000[(3)]	-	159,000
	2016	118,750	-	-	-	-	-	-
David Lamadrid Former	2017	-	-	-	-	-	-	-

TABLE OF COMPENSATION EXCLUDING COMPENSATION SECURITIES								
Name and Position	Year	Salary, consulting fee, retainer or commission ($)	Bonus ($)	Committee or Meeting Fees ($)	Option Awards (#)	Value of perquisites ($)	All Other Compensation ($)	Total ($)
President & Chief Financial Officer(4)								
Frank Koretsky Director(5)	2017 2016	- -	- -	- -	- -	- -	- -	- -
Andrew Glashow Director(5)(6)	2017	-	-	-	-	-	-	-

Notes:

(1) Although Mr. Binder's employment agreement provides for an annual salary of $150,000 per annum; to date, he has deferred all compensation from the Company, including the referenced salary, which has been converted to convertible promissory notes due to him. At present, Mr. Binder also serves as our Chief Financial Officer.
(2) Mr. Bonsett resigned as the Chief Operating Officer of the Company in November 2017.
(3) Amount represents auto allowance paid to Mr. Bonsett.
(4) Mr. Lamadrid was appointed as President and Chief Financial Officer of the Company on December 1, 2017. Mr. Lamadrid resigned as President and Chief Financial Officer of the Company effective July 13, 2018.
(5) To date, the Company has not paid our directors any compensation for services on our Board of Directors. Our directors are, however, entitled to receive compensation as determined by the Board of Directors.
(6) Mr. Glashow was appointed to the board of directors on December 7, 2017.

Compensation Securities

The following table sets out the compensation securities granted or issued to each director and NEO by the Company in the financial year ended May 31, 2017:

COMPENSATION SECURITIES						
Name and Position	Type of Compensation Security	Number of Compensation Securities, number of Underlying Securities and Percentage of Class	Date of Issue or Grant	Closing Price of Security or Underlying Security on Date of Grant	Closing Price of Security or Underlying Security at Year End ($)	Expiry Date
Jeffrey Binder Chairman, Chief Executive Officer(1)	-	-	-	-	-	-
Alan Bonsett Former Chief Operating Officer(1)(2)	-	-	-	-	-	-
David Lamadrid Former President & Chief Financial Officer(1)(3)(4)	-	-	-	-	-	-
Frank Koretsky Director(1)(5)	-	-	-	-	-	-
Andrew Glashow Director(1)(5)(6)	-	-	-	-	-	-

Notes:

(1) None of the directors or NEOs of the Company held any compensation securities or underlying securities as at May 31, 2017.
(2) Mr. Bonsett resigned as the Chief Operating Officer of the Company in November 2017.

(3) Mr. Lamadrid was appointed as President and Chief Financial Officer of the Company on December 1, 2017. Mr. Lamadrid resigned as President and Chief Financial Officer of the Company on July 13, 2018.
(4) To date, the Company has not paid our directors any compensation for services on our board of directors. The Company's directors are, however, entitled to receive compensation as determined by the Board of Directors.
(5) Mr. Glashow was appointed to the Board of Directors on December 7, 2017.

Exercise of Compensation Securities by Directors and NEOs

No directors or NEOs exercised any compensation securities during the financial year ended May 31, 2017.

Stock Option Plans and Other Incentive Plans

The Company currently does not have a stock option plan or any other incentive plan that provides for compensation intending to serve as an incentive for performance except as provided in the employment agreements of Mr. Binder and Mr. Bonsett as described below.

Employment Agreements

Jeffrey Binder

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman, President and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million.

The Company may terminate the employment with Mr. Binder "for cause" at any time. In the event the Company terminates Mr. Binder's employment for cause, all salary and any additional cash or equity compensation that would otherwise be payable for that calendar year and prior years and subsequent years shall automatically terminate and be forfeited. Upon termination of the employment agreement by the Company for cause, any restricted stock or stock options granted, or to be granted, that have not been earned or vested as of the date of termination shall be cancelled. Upon termination of this Agreement by the Company without cause, any restricted stock or stock options granted that have been earned, if applicable, but are not vested shall vest immediately upon the date of termination.

On April 28, 2015, Mr. Binder, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the Merger, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of $150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. Mr. Binder deferred all of the $250,000 in salary payable to him under his employment agreement through May 31, 2016. On July 20, 2016 and March 31, 2017, the Company issued Mr. Binder convertible promissory notes in exchange for $250,000 and $112,500 in deferred salary, respectively, among other amounts owed to Mr. Binder by the Company.

Alan Bonsett

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett received a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett resigned in November of 2017.

David Lamadrid

Effective November 30, 2017, the Company and Mr. Lamadrid entered into a one-year employment agreement. Pursuant to the agreement, Mr. Lamadrid commenced serving as the Company's President and Chief Financial Officer on December 1, 2017. Under the agreement, Mr. Lamadrid is entitled to receive an annual salary of $175,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, and annual restricted stock awards of the Company's common stock in an amount equal to 3% of its annual EBITDA. Additionally, Mr. Lamadrid was entitled to a one-time signing bonus of 500,000 shares of restricted common stock of the Company, which shall become fully vested one year from the effective date of the agreement. Effective December 1, 2017, and in connection with the employment agreement, Mr. Lamadrid and the Company entered into a Confidentiality, Non-Compete and Proprietary Rights Agreement. Pursuant thereto, Mr. Lamadrid agreed (i) not to compete with the Company during the term of his employment and, unless he is terminated without cause by the Company or terminates his employment agreement with the mutual consent of the Company, for a period of one year thereafter, (ii) not to release or disclose the Company's confidential information, and (iii) to assign the rights to all work product to the Company, among other terms. Mr. Lamadrid resigned as President and Chief Financial Officer of the Company on July 13, 2018 and his employment agreement was deemed terminated.

Oversight and Description of Director and NEO Compensation

The Board of Directors conducts reviews with regard to the compensation of the directors and NEO once a year. To make its recommendations on such compensation, the Board of Directors takes into account the types of compensation and the amounts paid to directors and officers of comparable publicly traded Canadian companies.

A description of the significant elements of compensation awarded to each NEO is set out in the "Employment Agreements" section, above. All of the NEOs are entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA and annual stock option or restricted stock awards of the Company's common stock in an amount between 2% and 4% of the Company's annual EBITDA.

DIRECTOR INDEBTEDNESS

Other than as set out below and routine indebtedness for travel and other expense advances, no existing or proposed director or executive officer of the Company, or any associate of any of them, was indebted to the Company as at August 2, 2018, or is currently indebted to the Company or has any indebtedness to another entity which is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Company.

Binder Note

On April 6, 2018, the Company issued a convertible promissory note to Mr. Binder (the "**Binder Convertible Note**") in the amount of $37,500 with respect to certain compensation payable to Mr. Binder as of February 28, 2018. The Binder Convertible Note is unsecured, bears interest at the rate of 10% per annum and is convertible into Common Shares at the rate of one Common Share for each $0.3125 converted. No interest payments are required until April 1, 2019, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on July 1, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note in full, all principal and accrued interest under the Binder Convertible Note may be converted, in whole or in part, into Common Shares at the rate of one Common Share for each $0.3125 converted.

AUDIT COMMITTEE AND CORPORATE GOVERNANCE

Pursuant to National Policy 58-101 - *Disclosure of Corporate Governance Practices*, the Company is required to and hereby discloses its corporate governance practices as follows:

Board of Directors

The Board of Directors of the Company facilitates its exercise of independent supervision over the Company's Management through frequent meetings of the Board.

Mr. Glashow is "independent" as that term is defined in NI 52-110. Jeffrey Binder is the Chairman, President and Chief Executive Officer of the Company, and he also holds greater than 10% of the Company's equity securities and is therefore not independent. Mr. Koretsky holds greater than 10% of the Company's equity securities and is considered to be an "affiliated entity" as defined in NI 52-110 and is therefore not independent.

Directorships

None of our directors are on the boards of any other publicly traded companies in North America.

Orientation and Continuing Education

The Board of Directors of the Company briefs all new directors with respect to the policies of the Board of Directors and other relevant corporate and business information. The Board does not provide any continuing education.

Ethical Business Conduct

The Board has found that the fiduciary duties placed on individual directors by the Company's governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation on an individual director's participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of Management and in the best interests of the Company.

Nomination of Directors

The Board of Directors is responsible for identifying individuals qualified to become new Board members and recommending to the Board new director nominees for the next annual meeting of shareholders.

New nominees must have a track record in general business management, special expertise in an area of strategic interest to the Company, the ability to devote the required time, show support for the Company's mission and strategic objectives, and a willingness to serve.

Compensation

The Board of Directors conducts reviews with regard to the compensation of the directors and CEO once a year. To make its recommendations on such compensation, the Board of Directors takes into account the types of compensation and the amounts paid to directors and officers of comparable publicly traded Canadian companies.

Other Board Committees

The Board of Directors currently has no board committees.

Assessments

The Board of Directors regularly monitors the adequacy of information given to directors, communications between the Board of Directors and Management and the strategic direction and processes of the Board and its committees.

Audit Committee

As the Company is a listed on a U.S. marketplace and the Company is in compliance with the requirements of that U.S. marketplace, the Company is exempt from Parts 2 (Audit Committee Responsibilities), 3 (Composition of the Audit Committee), 4 (Authority of the Audit Committee), and 5 (Reporting Obligations) of NI 52-110 pursuant to section 7.1 of NI 52-110.

PLAN OF DISTRIBUTION

This Prospectus is being filed in the Qualifying Jurisdictions to qualify the distribution of 30,421,670 Unit Shares and 30,421,670 Warrants issuable upon the deemed exercise of 30,421,670 Special Warrants.

On the Closing Date and pursuant to the terms of the Agency Agreement, the Company completed the Offering of an aggregate of 30,421,670 Special Warrants at the Offering Price pursuant to prospectus exemptions under applicable securities legislation in the Qualifying Jurisdictions (and in jurisdictions outside of Canada in compliance with laws applicable therein). Pursuant to the Agency Agreement, the Agent agreed to offer for sale, on a "commercially reasonable efforts" private placement basis, 30,421,670 Special Warrants at the Offering Price. Pursuant to the Agency Agreement, the Company paid the Agent's Commission of CAD$1,046,029 and provided reimbursement for certain expenses incurred in connection with the Offering by the Agent. In addition, the Agent was issued 2,317,842 Broker Warrants in the aggregate, representing 8.0% of the Special Warrants sold pursuant to the Offering. Each Broker Warrant is exercisable to acquire one Unit consisting of one Common Share and one Warrant, subject to adjustment in certain circumstances, at the Offering Price for a period of 36 months from the date of listing of the Common Shares on a recognized Canadian stock exchange. The Agent was paid a corporate finance fee of 5%, or $651,893, all of which was paid in Corporate Finance Fee Special Warrants (totaling 1,448,651 Special Warrants) on Closing of the Offering. The Broker Warrants, Units issuable upon exercise of the Broker Warrants and the Corporate Finance Fee Special Warrants are qualified by this Prospectus.

The Offering Price and other terms of the Offering were determined by negotiation between the Company and the Agent. Other than the Agent's Commission, Broker Warrants and Finance Fee Special Warrants, the Agent has not and will not receive any other fee or commission from the Company in connection with the completion of the Offering or the deemed exercise of the Special Warrants.

The Special Warrants were issued pursuant to the terms of the Special Warrant Indenture. Each Special Warrant entitles the holder thereof to receive one Unit, subject to adjustment in certain circumstances as set forth in the Special Warrant Indenture, upon the deemed exercise of the Special Warrants on the Deemed Exercise Date without payment of any additional consideration or further action on the part of the holders thereof.

Pursuant to the Agency Agreement, the Company will use its best efforts to obtain a Receipt from the Securities Commissions for the Prospectus before August 20, 2018. In the event the Company has not received a Receipt from the Securities Commissions for the Prospectus before the August 20, 2018, each unexercised Special Warrant will, at the Time of Expiry, be exercised such that the holder will receive, for no additional consideration, 1.1 Units (instead of one Unit) (the additional 0.1 Units are Penalty Units); provided, however, that any fractional entitlement to Penalty Units will be rounded down to the nearest whole Penalty Unit. Unless the context otherwise requires, any reference herein to "Units" shall include any Penalty Units issued by the Company in accordance with the terms of the Special Warrant Indenture.

The Special Warrants, the Unit Shares, the Warrants and the Warrant Shares have not been, and will not be, registered under the U.S. Securities Act or any state securities laws and the Warrants may not be exercised by or on behalf of a U.S. Person or a person in the United States unless an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available. Accordingly, the Unit Shares, the Warrants and the Warrant Shares will bear appropriate legends evidencing the restrictions on the offering, sale and transfer of such securities.

The Company covenanted with the Agent that the Company shall use its best efforts to prepare and file with the Securities and Exchange Commission (the "**SEC**") within forty-five (45) calendar days after the Closing Date of the Offering a registration statement (on Form S-3, S-1, or other appropriate registration statement form reasonably acceptable) under the U.S. Securities Act (the "**Registration Statement**"), at the sole expense of the Company, so as to permit a public offering and resale of the Common Shares and Warrant Shares in the United States under the U.S. Securities Act; and (ii) use commercially reasonable efforts to cause a Registration Statement to be declared effective by the SEC as soon as possible and not later than the earlier of (a) one hundred and twenty (120) calendar days from the date of filing the Registration Statement in the event of an SEC review of the Registration Statement, and (b) the fifth trading day (day on which the OTCQB is open for quotation) following the date on which the Company is notified by the SEC that the Registration Statement will not be reviewed or is no longer subject to further review and comments.

Pursuant to the Agency Agreement, the Company has agreed, for a period of 90 days following the Listing Date, not, directly or indirectly, offer, issue, sell, grant, secure, pledge, or otherwise transfer, dispose of or monetize, or engage in any hedging transaction, or enter into any form of agreement or arrangement the consequence of which is to alter economic exposure to, or announce any intention to do so, in any manner whatsoever, any Common Shares or securities convertible into, exchangeable for, or otherwise exercisable to acquire Common Shares or other equity securities of the Company, without the prior written consent of the Agent (such consent not to be unreasonably withheld or delayed), other than in conjunction with: (i) the grant or exercise of stock options and other similar issuances pursuant to the share incentive plan of the Company and other share compensation arrangements; (ii) outstanding warrants; (iii) obligations in respect of existing agreements; and (iv) the issuance of securities in connection with property or share acquisitions in the normal course of business, provided that any Common Shares or securities convertible, exercisable or exchangeable for Common Shares issued in such financings shall not be freely tradable in Canada prior to the Special Warrants having been exercised and the Common Shares and Warrants issued upon such exercise being freely tradable in Canada (subject to restrictions on control block distributions).

Pursuant to the Agency Agreement, the Company has also agreed to indemnify the Agent, their respective affiliates and their respective directors, officers, employees and partners against certain liabilities, including liabilities under Canadian securities legislation or to contribute to payments the Agent may have to make because of such liabilities.

The outstanding Common Shares are listed for trading on the OTCQB under the symbol “CLSH”. On June 19, 2018, the last trading day before the closing of the Offering, the closing price of the Common Shares on the OTCQB was $0.65. The Company has applied to list the Common Shares on the CSE. The listing of the Common Shares will be subject to the Company fulfilling all the listing requirements of the CSE, which cannot be guaranteed.

RISK FACTORS

Much of the information included in this Prospectus includes or is based upon estimates, projections or other “forward-looking statements”. Such forward-looking statements include any projections or estimates made by us and our Management in connection with our business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other “forward-looking statements” involve various risks and uncertainties as outlined below. We caution readers of this Prospectus that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other “forward-looking statements”. In evaluating us, our business and any investment in our business, readers should carefully consider the following factors.

Our Common Shares are considered speculative. Prospective investors should consider carefully the risk factors set out below.

Risks Related to the Business

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior Management. While employment agreements or management agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company’s business, operating results, financial condition or prospects.

Additional Financing

The Company will require equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund on-going operations, capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Profitability of the Company

The Company may experience difficulties in its development process, such as capacity constraints, quality control problems or other disruptions, which would make it more difficult to generate profits. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in manufacturing processes and design could have a material adverse effect on the Company's business, prospects, results of operations and financial condition.

Ongoing Costs and Obligations

The Company expects to incur significant ongoing costs and obligations related to its investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on the Company's results of operations, financial condition and cash flows. In addition, future changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Increased Costs as a Result of Being a Public Company

Once a public issuer, the Company will be subject to the reporting requirements and rules and regulations under the applicable Canadian securities laws and rules of any stock exchange on which the Company's securities may be listed from time to time. Additional or new regulatory requirements may be adopted in the future. The requirements of existing and potential future rules and regulations will increase the Company's legal, accounting and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place undue strain on its personnel, systems, and resources which could adversely affect its business, financial condition, and results of operations.

Competition

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and experience than the Company. Increased competition by larger and better-financed competitors could materially and adversely affect the business, financial condition, results of operations or prospects of the Company.

Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. To become and remain competitive, the Company will require research and development, marketing, sales and support. The Company may not have sufficient resources to maintain research and development, marketing, sales and support efforts on a competitive basis which could materially and adversely affect the business, financial condition, results of operations or prospects of the Company.

The introduction of a recreational model for cannabis production and distribution may impact the medical marijuana market. The impact of this potential development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

If the number of users of medical marijuana increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational marijuana is changing internationally. More countries have passed laws that allow for the production and distribution of medical marijuana in some form or another. The Company has some international partnerships in place, which may be effected if more countries legalize medical marijuana. Increased international competition might lower the demand for the Company's products on a global scale.

Future Acquisitions or Dispositions

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of the Company's ongoing business; (ii) distraction of Management; (iii) the Company may become more financially leveraged; (iv) the anticipated benefits and cost savings of those transactions may not be realized fully or at all or may take longer to realize than expected; (v) increasing the scope and complexity of the Company's operations; and (vi) loss or reduction of control over certain of the Company's assets.

The presence of one or more material liabilities of an acquired company that are unknown to the Company at the time of acquisition could have a material adverse effect on the business, results of operations, prospects and financial condition of the Company. A strategic transaction may result in a significant change in the nature of the Company's business, operations and strategy. In addition, the Company may encounter unforeseen obstacles or costs in implementing a strategic transaction or integrating any acquired business into the Company's operations.

Regulatory Approval of the Oasis Acquisition

The Oasis Acquisition must be approved by Nevada regulatory authorities. Although the Company has no reason to believe it will not receive the requisite approval, since there is no pre-approval process, there is a possibility that such approval may not be received. As such, the funds paid in satisfaction of the Closing Consideration may have been partially or wholly disbursed by Alternative Solutions by the time the Company makes a claim for their return. Any combination of the failure to complete the Oasis Acquisition or have the Closing Consideration partially or wholly refunded could have a material adverse effect on the Company.

Reputational Risks to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical marijuana business activities. While the Company has other banking relationships and believes that the services can be procured from other institutions, the Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Unfavorable Publicity or Consumer Perception

The Company believes the medical marijuana industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the marijuana produced. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of marijuana products. There can be no assurance that future scientific research or findings, regulatory investigations, litigation, media attention or other publicity will be favorable to the marijuana market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory investigations, litigation, media attention or other publicity that are perceived as less favorable than, or that question, earlier research reports, findings or other publicity could have a material adverse effect on the demand for medical marijuana and on the business, results of operations, financial condition, cash flows or prospects of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of marijuana in general, or associating the consumption of medical marijuana with illness or other negative effects or events, could have such a material adverse effect. There is no assurance that such adverse publicity reports or other media attention will not arise.

Research and Development

Before the Company can obtain regulatory approval for the commercial sale of any of its products, it will be required to complete extensive trial testing to demonstrate safety and efficacy. Depending on the exact nature of trial testing, such trials can be expensive and are difficult to design and implement. The testing process is also time consuming and can often be subject to unexpected delays.

The timing and completion of trial testing may be subject to significant delays relating to various causes, including: inability to manufacture or obtain sufficient quantities of units and or test subjects for use in trial testing; delays arising from collaborative partnerships; delays in obtaining regulatory approvals to commence a study, or government intervention to suspend or terminate a study; delays, suspensions or termination of trial testing due to the applicable institutional review board or independent ethics board responsible for overseeing the study to protect research subjects; delays in identifying and reaching agreement on acceptable terms with prospective trial testing sites and subjects; variability in the number and types of subjects available for each study and resulting difficulties in identifying and enrolling subjects who meet trial eligibility criteria; scheduling conflicts; difficulty in maintaining contact with subjects after testing, resulting in incomplete data; unforeseen safety issues or side effects; lack of efficacy during trial testing; reliance on research organizations to conduct trial testing, which may not conduct such trials with good laboratory practices; or other regulatory delays.

Difficulty in Developing Products

If the Company cannot successfully develop, manufacture and distribute its products, or if the Company experiences difficulties in the development process, such as capacity constraints, quality control problems or other disruptions, the Company may not be able to develop market-ready commercial products at acceptable costs, which would adversely affect the Company’s ability to effectively enter the market. A failure by the Company to achieve a low-cost structure through economies of scale or improvements in cultivation and manufacturing processes would have a material adverse effect on the Company’s commercialization plans and the Company’s business, prospects, results of operations and financial condition.

Success of New and Existing Products and Services

The Company has committed, and expects to continue to commit, significant resources and capital to develop and market existing product and service enhancements and new products and services. These products and services are relatively untested, and the Company guarantee that it will achieve market acceptance for these products and services, or other new products and services that we may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business of manufacturing and distributing vaporizers and accessories. In addition, new products, services and enhancements may pose a variety of technical challenges and require us to attract additional qualified employees. The failure to successfully develop and market these new products, services or enhancements or to hire qualified employees could seriously harm our business, financial condition and results of operations.

Continued Market Acceptance by Consumers

The Company is substantially dependent on continued market acceptance of its products by consumers. Although the Company believe that the use of products similar to the products designed and manufactured by the Company is gaining international acceptance, the Company cannot predict the future growth rate and size of this market.

Promoting and Maintaining Brands

The Company believes that establishing and maintaining the brand identities of products is a critical aspect of attracting and expanding a large customer base. Promotion and enhancement of brands will depend largely on success in continuing to provide high quality products. If customers and end users do not perceive the Company’s products to be of high quality, or if the Company introduces new products or enters into new business ventures that are not favorably received by customers and end users, the Company will risk diluting brand identities and decreasing their attractiveness to existing and potential customers. Moreover, in order to attract and retain customers and to promote and maintain brand equity in response to competitive pressures, the Company may have to increase substantially financial commitment to creating and maintaining a distinct brand loyalty among customers. If the Company incurs significant expenses in an attempt to promote and maintain brands, the business, results of operations and financial condition could be adversely affected.

Director and Officer Control of Common Shares

The officers and directors of the Company currently own approximately 36.85% of the issued and outstanding Common Shares. The Company's shareholders nominate and elect the Board, which generally has the ability to control the acquisition or disposition of the Company's assets, and the future issuance of its Common Shares or other securities. Accordingly, for any matters with respect to which a majority vote of the Common Shares may be required by law, the Company's directors and officers may have the ability to control such matters. Because the directors and officers control a substantial portion of such Common Shares, investors may find it difficult or impossible to replace the Company's directors if they disagree with the way the Company's business is being operated.

Results of Future Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, prospective purchasers of the Common Shares should not place undue reliance on such articles and reports. Future research studies and clinical trials may draw opposing conclusions to those stated in this Prospectus or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Reliance on Key Inputs

The manufacturing business is dependent on a number of key inputs and their related costs including raw materials and supplies related to product development and manufacturing operations. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition, results of operations or prospects of the Company. Some of these inputs may only be available from a single supplier or a limited group of suppliers. If a sole source supplier was to go out of business, the Company might be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to the Company in the future. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of the Company.

Environmental Regulations

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government environmental approvals and permits are currently, and may in the future be required in connection with CLSH's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed business activities or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage due to its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Agricultural Risks

The Company's future business involves the growing of cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although the Company expects that any such growing will be completed indoors under climate controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

Vulnerability to Rising Energy Costs

Adult-use and medical marijuana growing operations consume considerable energy, making the Company potentially vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business, results of operations, financial condition or prospects of the Company.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure plans may be significantly greater than anticipated by the Company's Management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the business, financial condition, results of operations or prospects of the Company.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the industry. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Internal Controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's Consolidated Financial Statements and materially adversely affect the trading price of the Common Shares**.**

Conflicts of Interest

Certain of the directors and officers of the Company are, or may become directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares. Even if the Company is involved in litigation and wins, litigation can redirect significant company resources.

Product Liability

As a distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products involves the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. Although the Company has secured product liability insurance, and strictly enforces a quality standard within the operations, there can be no assurances that the Company will be able to maintain its product liability insurance on acceptable terms or with adequate coverage against potential liabilities. This scenario could prevent or inhibit the commercialization of the Company's potential products. To date, there have been no product related issues.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant Management attention. Although the Company has detailed procedures in place for testing finished products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company as its owner could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Corporation's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the U.S. FDA, Health Canada or other regulatory agencies, requiring further Management attention and potential legal fees and other expenses.

Intellectual Property Risks

The Company's viability will depend, in part, on our ability to develop and maintain the proprietary aspects of our technology to distinguish our products from our competitors' products. The Company has certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. The Company will rely on this intellectual property, know-how and other proprietary information, and may require employees, consultants and suppliers to sign confidentiality agreements. However, any confidentiality agreement may be breached, and the Company may not have adequate remedies for such breaches. Third parties may independently develop substantially equivalent proprietary information without infringing upon any proprietary technology. Third parties may otherwise gain access to the Company's proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on the Company's business, results of operations or prospects.

As long as cannabis remains illegal under U.S. federal law as a Schedule I controlled substance pursuant to the *Controlled Substances Act*, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state, provincial and/ or local level.

The Company may also find it necessary to bring infringement or other actions against third parties to seek to protect its intellectual property rights. Litigation of this nature, even if successful, is often expensive and time-consuming to prosecute and there can be no assurance that the Company will have the financial or other resources to enforce the Company's rights or prevent other parties from developing similar technology or designing around our intellectual property. Although we believe that the Company's technology does not and will not infringe upon the patents or violate the proprietary rights of others, it is possible such infringement or violation has occurred or may occur, which could have a material adverse effect on the Company's business.

The Company is not aware of any infringement by us of any person's or entity's intellectual property rights. In the event that products the Company sells are deemed to infringe upon the patents or proprietary rights of others, the Company could be required to modify its products or obtain a license for the manufacture and/or sale of such products or cease selling such products. In such event, there can be no assurance that the Company would be able to do so in a timely manner, upon acceptable terms and conditions, or at all, and the failure to do any of the foregoing could have a material adverse effect upon the Company's business.

There can be no assurance that the Company will have the financial or other resources necessary to enforce or defend a patent infringement or proprietary rights violation action. If the Company's products or proposed products are deemed to infringe or likely to infringe upon the patents or proprietary rights of others, the Company could be subject to injunctive relief and, under certain circumstances, become liable for damages, which could also have a material adverse effect on the Company's business and financial condition.

Fraudulent Or Illegal Activity by Employees, Contractors And Consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It may not always be possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Information Technology Systems and Cyber-Attacks

The Company's operations depend, in part, on how well it and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, intentional damage and destruction, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Security Breaches

Given the nature of the Company's product and its lack of legal availability outside of channels approved by the Government of the United States, as well as the concentration of inventory in its facilities, despite meeting or exceeding all legislative security requirements, there remains a risk of shrinkage as well as theft. A security breach at one of the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increase expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes, particularly patient lists and preferences, is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

Market Price Volatility Risks

The market price of the Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Common Shares.

Liquidity Risk

In the United States, the Company's Common Shares trade on the OTCQB. The OTCQB is an inter-dealer, over-the-counter market that provides significantly less liquidity than other national or regional exchanges. Securities traded on the OTCQB are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTCQB. Quotes for stocks listed on the OTCQB are not listed in newspapers. Therefore, prices for securities traded solely on the OTCQB may be difficult to obtain and holders of the Company's securities may be unable to resell their securities at or near their original acquisition price, or at any price.

The Company cannot predict at what prices the Common Shares of the Company will trade and there can be no assurance that an active trading market will develop or be sustained. The Company has applied to list the Common Shares on the CSE. The listing of the Common Shares will be subject to the Company fulfilling all the listing requirements of the CSE, which cannot be guaranteed and final approval of the CSE has not yet been obtained. There is a significant liquidity risk associated with an investment in the Company.

SEC "Penny Stock" Regulations

The Company's securities may be "penny stocks". The SEC has adopted Rule 15g-9 which generally defines "penny stock" to be any equity security that has a market price (as defined) less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exceptions. The Common Shares are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and "accredited investors". The term "accredited investor" refers generally to institutions with assets in excess of $5,000,000 or individuals with a net worth in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the securities of the Company that are captured by the penny stock rules. Consequently, the penny stock rules may affect the ability of broker-dealers to trade the Company's securities. Management believes that the penny stock rules could discourage investor interest in and limit the marketability of our Common Shares.

FINRA Sales Practice Requirements

FINRA has adopted rules that require a broker-dealer to have reasonable grounds for believing that an investment is suitable for a customer before recommending an investment to a customer. Prior to recommending speculative, low priced securities to non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Pursuant to the interpretation of these rules, FINRA believes that there is a high probability that speculative, low priced securities will not be suitable for at least some customers. Thus, the FINRA requirements make it more difficult for broker-dealers to recommend the Common Shares to customers which may limit an investor's ability to buy and sell the Common Shares, have an adverse effect on the market for the Common Shares, and thereby negatively impact the price of the Common Shares.

Operating Risks and Insurance

The Company's operations are subject to hazards inherent in the medical marijuana industry, such as equipment defects, malfunction and failures, natural disasters which result in fires, accidents and explosions that can cause personal injury, loss of life, suspension of operations, damage to facilities, business interruption and damage to or destruction of property, equipment and the environment, labour disputes, and changes in the regulatory environment. These risks could expose the Company to substantial liability for personal injury, wrongful death, property damage, pollution, and other environmental damages. The frequency and severity of such incidents will affect operating costs, insurability and relationships with customers, employees and regulators.

The Company continuously monitors its operations for quality control and safety. However, there are no assurances that the Company's safety procedures will always prevent such damages. Although the Company maintains insurance coverage that it believes to be adequate and customary in the industry, there can be no assurance that such insurance will be adequate to cover its liabilities. In addition, there can be no assurance that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable and commercially justifiable. The occurrence of a significant uninsured claim, a claim in excess of the insurance coverage limits maintained by the Company, or a claim at a time when it is not able to obtain liability insurance, could have a material adverse effect on the Company, the Company's ability to conduct normal business operations and on the Company's business, financial condition, results of operations and cash flows in the future.

Uninsured or Uninsurable Risk

The Company may be subject to liability for risks against which it cannot insure or against which the Company may elect not to insure due to the high cost of insurance premiums or other factors. The payment of any such liabilities would reduce the funds available for the Company's normal business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on the Company's financial position and operations.

Issuance of Debt

From time to time, the Company may enter into transactions to acquire assets or the shares of other organizations. These transactions may be financed in whole or in part with debt, which may increase the Company's debt levels above industry standards for companies of similar size. Depending on future exploration and development plans, the Company may require additional equity and/or debt financing that may not be available or, if available, may not be available on favourable terms to the Company. Neither the Company's articles nor its by-laws limit the amount of indebtedness that the Company may incur. As a result, the level of the Company's indebtedness from time to time, could impair its ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Dilution

The Company may make future acquisitions or enter into financings or other transactions involving the issuance of securities of the Company which may be dilutive to the other shareholders and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares.

Financial Projections May Prove Materially Inaccurate or Incorrect

The Company's financial estimates, projections and other forward-looking information accompanying this Prospectus were prepared by the Company without the benefit of reliable historical industry information or other information customarily used in preparing such estimates, projections and other forward-looking information. Such forward-looking information is based on assumptions of future events that may or may not occur, which assumptions may not be disclosed in such documents. Investors should research the Company and become familiar with the assumptions underlying any estimates, projections or other forward-looking information. Projections are inherently subject to varying degrees of uncertainty and their achievability depends on the timing and probability of a complex series of future events. There is no assurance that the assumptions upon which these projections are based will be realized. Actual results may differ materially from projected results for a number of reasons including increases in operation expenses, changes or shifts in regulatory rules, undiscovered and unanticipated adverse industry and economic conditions, and unanticipated competition. Accordingly, investors should not rely on any projections to indicate the actual results the Company might achieve.

Certain Remedies and Rights to Indemnification may be Limited

The Company's governing documents provide that the liability of its Board and officers is eliminated to the fullest extent allowed under the laws of the Province of Ontario. Thus, the Company and the shareholders of the Company may be prevented from recovering damages for alleged errors or omissions made by the members of the Board and its officers. The Company's governing documents also provide that the Company will, to the fullest extent permitted by law, indemnify members of the Board and its officers for certain liabilities incurred by them by virtue of their acts on behalf of the Company.

Going-Concern Risk

The financial statements have been prepared on a going concern basis under which an entity is considered to be able to realize its assets and satisfy its liabilities in the ordinary course of business. The Company's future operations are dependent upon the identification and successful completion of equity or debt financing and the achievement of profitable operations at an indeterminate time in the future. There can be no assurances that the Company will be successful in completing an equity or debt financing or in achieving profitability. The financial statements do not give effect to any adjustments relating to the carrying values and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

Customer Acquisitions

The Company's success depends on its ability to attract and retain customers. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective products, the successful implementation of the Company's client-acquisition plan and continued growth in the aggregate number of patients selecting medical marijuana as a treatment option. The Company's failure to acquire and retain patients as customers would have a material adverse effect on the Company's business, operating results and financial condition.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's secured debt and borrowings are all at fixed interest rates, therefore the interest rate risk is limited to potential changes on cash held with financial institutions. As interest on these balances is negligible, the Company considers interest rate risk to be immaterial.

Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents. Credit risk arises from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what Management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Risks Related to Our Business and Industry

Regulatory Regime

The business and activities of the Company are heavily regulated in all jurisdictions where it carries on business. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities, relating to the manufacture, marketing, management, transportation, storage, sale, pricing and disposal of medical marijuana and cannabis oil, and also including laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over the activities of the Company, including the power to limit or restrict business activities as well as impose additional disclosure requirements on the Company's products and services. Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. Any delays in obtaining, or failure to obtain regulatory approvals would significantly delay the development of markets and products and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may lead to possible sanctions including the revocation or imposition of additional conditions on licenses to operate the Company's business, the suspension or expulsion from a particular market or jurisdiction or of its key personnel, and the imposition of fines and censures. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Changes in Laws, Regulations and Guidelines

The Company's operations are subject to various laws, regulations, guidelines and licensing requirements relating to the production, manufacture, sale, distribution, management, transportation, storage and disposal of medical marijuana, as well as being subject to laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. While to the knowledge of Management the Company is currently in compliance with all such laws, any changes to such laws, regulations, guidelines and policies due to matters beyond the control of the Company could have a material adverse effect on the business, results of operations and financial condition of the Company.

Volatility of Industry Conditions

Industry conditions are influenced by numerous factors over which the Company has no control, including the level of medical marijuana prices, expectations about future medical marijuana prices and production, the cost of producing and delivering medical marijuana; any rates of declining current production, political, regulatory and economic conditions; alternative fuel requirements; and the ability of medical marijuana companies to raise equity capital or debt financing.

The level of activity in the medical marijuana industry is volatile. No assurance can be given that expected trends in medical marijuana production and sales activities will continue or that demand for medical marijuana will reflect the level of activity in the industry. Any prolonged substantial reduction in medical marijuana prices would likely affect medical marijuana production levels and therefore affect the demand for medical marijuana. A material decline in medical marijuana prices or industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

New Well-Capitalized Entrants may Develop Large-Scale Operations

Currently, the marijuana industry generally is comprised of individuals and small to medium-sized entities, however, the risk remains that large conglomerates and companies who also recognize the potential for financial success through investment in this industry could strategically purchase or assume control of larger dispensaries and cultivation facilities. In doing so, these larger competitors could establish price setting and cost controls which would effectively "price out" many of the individuals and small to medium-sized entities who currently make up the bulk of the participants in the varied businesses operating within and in support of the medical marijuana industry. While the trend in most state laws and regulations seemingly deters this type of takeover, this industry remains quite nascent, so what the landscape will be in the future remains largely unknown, which in itself is a risk.

The Company's proposed business plan is subject to all business risks associated with new business enterprises, including the absence of any significant operating history upon which to evaluate an investment. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the formation of a new business, the development of new strategy and the competitive environment in which the Company will operate. It is possible that the Company will incur losses in the future. There is no guarantee that the Company will be profitable.

Constraints on Marketing Products

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by government regulatory bodies. The regulatory environment in the United States limits companies' abilities to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and results of operations could be adversely affected.

Environmental Risk and Regulation

The Company's operations are subject to environmental regulation in the various jurisdictions in which it operates. These regulations mandate, among other things, the maintenance of air and water quality standards and land reclamation. They also set forth limitations on the generation, transportation, storage and disposal of solid and hazardous waste. Environmental legislation is evolving in a manner which will require stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a heightened degree of responsibility for companies and their officers, directors (or the equivalent thereof) and employees. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Company's operations.

Government approvals and permits are currently, and may in the future, be required in connection with the Company's operations. To the extent such approvals are required and not obtained, the Company may be curtailed or prohibited from its proposed production of medical marijuana or from proceeding with the development of its operations as currently proposed.

Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. The Company may be required to compensate those suffering loss or damage by reason of its operations and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

Amendments to current laws, regulations and permits governing the production of medical marijuana, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in expenses, capital expenditures or production costs or reduction in levels of production or require abandonment or delays in development.

Public Opinion and Perception

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in the United States or elsewhere. Public opinion and support for medical and adult-use marijuana has traditionally been inconsistent and varies from jurisdiction to jurisdiction. While public opinion and support appears to be rising for legalizing medical and adult-use marijuana, it remains a controversial issue subject to differing opinions surrounding the level of legalization (for example, medical marijuana as opposed to legalization in general). A negative shift in the public’s perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or adult-use cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. Any inability to fully implement the Company’s expansion strategy may have a material adverse effect on its business, results of operations or prospects.

Reliable Data on the Medical Marijuana Industry is not Available

As a result of recent and ongoing regulatory and policy changes in the medical marijuana industry, the market data available is limited and unreliable. Federal, and state laws prevent widespread participation and hinder market research. Therefore, market research and projections by the Company of estimated total retail sales, demographics, demand, and similar consumer research, are based on assumptions from limited and unreliable market data, and generally represent the personal opinions of the Company’s Management team as of the date of this document.

Economic Environment

The Company’s operations could be affected by the economic context should the unemployment level, interest rates or inflation reach levels that influence consumer trends, and consequently, impact the Company’s sales and profitability. As well, general demand for banking services and alternative banking or financial services cannot be predicted and future prospects of such areas might be different from those predicted by the Company’s Management.

Global Financial Conditions

Following the onset of the credit crisis in 2008, global financial conditions were characterized by extreme volatility and several major financial institutions either went into bankruptcy or were rescued by governmental authorities. While global financial conditions subsequently stabilized, there remains considerable risk in the system given the extraordinary measures adopted by government authorities to achieve that stability. Global financial conditions could suddenly and rapidly destabilize in response to future economic shocks, as government authorities may have limited resources to respond to future crises.

Future economic shocks may be precipitated by a number of causes, including a rise in the price of oil, geopolitical instability and natural disasters. Any sudden or rapid destabilization of global economic conditions could impact the Company’s ability to obtain equity or debt financing in the future on terms favourable to the Company. Additionally, any such occurrence could cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. Further, in such an event, the Company's operations and financial condition could be adversely impacted.

Furthermore, general market, political and economic conditions, including, for example, inflation, interest and currency exchange rates, structural changes in the cannabis industry, supply and demand for commodities, political developments, legislative or regulatory changes, social or labour unrest and stock market trends will affect the Company's operating environment and its operating costs, profit margins and share price. Any negative events in the global economy could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

Cannabis Continues to be a Controlled Substance under the United States Federal Controlled Substances Act

The Company will be directly engaged in the medical and adult-use cannabis industry in the U.S. where local state law permits such activities however all such activities remain illegal under federal law in the U.S.. Investors are cautioned that in the U.S., cannabis is highly regulated at the state level. To our knowledge, there are to date a total of 30 states, and the District of Columbia, Puerto Rico and Guam that have legalized medical cannabis in some form, including California, although not all states have fully implemented their legalization programs. Nine states and the District of Columbia have legalized cannabis for adult use. Fifteen additional states have legalized high-CBD, low THC oils for a limited class of patients. Notwithstanding the permissive regulatory environment of cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the Controlled Substances Act (codified in 21 U.S.C.A. Section 812). Under United States federal law, a Schedule I drug is considered to have a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the substance under medical supervision. Federal law prohibits commercial production and sale of all Schedule I controlled substances, and as such, cannabis-related activities, including without limitation, the importation, cultivation, manufacture, distribution, sale and possession of cannabis remain illegal under U.S. federal law. It is also illegal to aid or abet such activities or to conspire or attempt to engage in such activities. Strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under U.S. federal law, nor provide a defense to any federal proceeding brought against the Company. An investor's contribution to and involvement in such activities may result in federal civil and/or criminal prosecution, including, but not limited to, forfeiture of his, her or its entire investment, fines and/or imprisonment.

An appropriations rider contained in the fiscal year 2015, 2016, 2017, and 2018 Consolidated Appropriations Acts provides budgetary constraints on the federal government's ability to interfere with the implementation of state-based medical cannabis laws. The Ninth Circuit Court of Appeals and other courts have interpreted the language to mean that the DOJ cannot expend funds to prosecute state-law-abiding medical cannabis operators complying strictly with state medical cannabis laws. The Amendment prohibits the federal government from using congressionally appropriated funds to prevent states from implementing their own medical cannabis laws. The Amendment remains in effect through September 30, the end of the 2018 fiscal year, at which point Congress will decide whether to approve its extension. Continued reauthorization of the Amendment is predicated on future political developments and cannot be guaranteed. If the Amendment expires, federal prosecutors could prosecute even state-compliant medical cannabis operators for conduct wihtin the five-year statute of limitations. The Amendment does not protection to state legal adult-use cannabis businesses and the DOJ may spend funds to prosecute persons that are operating in accordance with state adult use cannabis laws.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges and penalties, including, but not limited to, disgorgement of profits, cessation of business activities, divestiture, or prison time. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of its securities on the CSE, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation or defense of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Approach to the Enforcement of Cannabis Laws may be Subject to Change

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in, and the operations of, cannabis businesses in the U.S. are subject to inconsistent laws and regulations. The so-called "Cole Memorandum" issued by former Deputy Attorney General James Cole on August 29, 2013 and other Obama-era cannabis policy guidance, discussed below, provided the framework for managing the tension between federal and state cannabis laws. Subsequently, as discussed below, Attorney General Jeff Sessions rescinded the Cole Memo and related policy guidance. Although no longer in effect, these policies, and the enforcement priorities established within, appear to continue to be followed during the Trump administration and remain critical factors that inform the past and future trend of state-based legalization.

The Cole Memo directed U.S. Attorneys not to prioritize the enforcement of federal cannabis laws against individuals and businesses that comply with state medical or adult-use cannabis regulatory programs, provided certain enumerated enforcement priorities (such as diversion or sale of cannabis to minors) were not implicated. In addition to general prosecutorial guidance issued by the DOJ, FinCEN issued a the FinCEN Memorandum on February 14, 2014 outlining Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis businesses, which echoed the enforcement priorities outlined in the Cole Memorandum. On the same day the FinCEN Memorandum was published, the DOJ issued complimentary policy guidance directing prosecutors to apply the enforcement priorities of the Cole Memo when determining whether to prosecute individuals or institutions with crimes related to financial transactions involving the proceeds of cannabis-related activities.

On January 4, 2018 Attorney General Jeff Sessions rescinded the Cole Memo, the Cole Banking Memorandum, and all other related Obama-era DOJ cannabis enforcement guidance. 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, Attorney General Sessions' rescission of the Cole Memo and the Cole Banking Memorandum has not affected the status of the FinCEN Memorandum issued by the Department of Treasury, which remains in effect. In addition to his rescission of the Cole Memo, Attorney General Sessions issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explains the DOJ's rationale for rescinding all past DOJ cannabis enforcement guidance, claiming that Obama-era enforcement policies are "unnecessary" due to existing general enforcement guidance adopted in the 1980s, in chapter 9.27.230 of the USAM. The USAM enforcement priorities, like those of the Cole Memo, are based on the use of the federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community." Although the Sessions Memorandum emphasizes that cannabis is a federally illegal Schedule I controlled substance, it does not otherwise instruct U.S. Attorneys to consider the prosecution of cannabis-related offenses a DOJ priority, and in practice, most U.S. Attorneys have not changed their prosecutorial approach to date. However, due to the lack of specific direction in the Sessions Memorandum as to the priority federal prosecutors should ascribe to such cannabis activities, there can be no assurance that the federal government will not seek to prosecute cases involving cannabis businesses that are otherwise compliant with state law.

Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation and prospects, even if such proceedings were concluded successfully in favour of the Company. In the extreme case, such proceedings could ultimately involve the criminal prosecution of key executives of the Company, the seizure of corporate assets, and consequently, the inability of the Company to continue its business operations. Strict compliance with state and local laws with respect to cannabis does not absolve the Company of potential liability under U.S. federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

Uncertainty Surrounding Existing Protection from U.S. Federal Prosecution

Pursuant to the Amendment, until September 2018, the DOJ is prohibited from expending any funds to prevent states from implementing their own medical cannabis laws. If the Amendment or an equivalent thereof is not successfully included in the next or any subsequent federal omnibus spending bill, the protection which has been afforded thereby to U.S. medical cannabis businesses in the past would lapse, and such businesses would be subject to a higher risk of prosecution under federal law. Although unlikely, there is a possibility that all amendments may be banned from federal omnibus spending bills, and if this occurs and the substantive provisions of the Amendment are not included in the base federal omnibus spending bill or other law, these protections would lapse.

Anti-Money Laundering Laws and Regulations

The Company will be subject to a variety of laws and regulations domestically and in the U.S. that involve money laundering, financial recordkeeping and proceeds of crime, including the Bank Secrecy Act, as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the U.S. and Canada. Since the cultivation, manufacture, distribution and sale of cannabis remains illegal under the Controlled Substances Act, banks and other financial institutions providing services to cannabis-related businesses risk violation of federal anti-money laundering statutes (18 U.S.C. §§ 1956 and 1957), the unlicensed money-remitter statute (18 U.S.C. § 1960) and the Bank Secrecy Act, among other applicable federal statutes. Banks or other financial institutions that provide cannabis businesses with financial services such as a checking account or credit card in violation of the Bank Secrecy Act could be criminally prosecuted for willful violations of money laundering statutes, in addition to being subject to other criminal, civil, and regulatory enforcement actions. Banks often refuse to provide banking services to businesses involved in the cannabis industry due to the present state of the laws and regulations governing financial institutions in the U.S. The lack of banking and financial services presents unique and significant challenges to businesses in the cannabis industry. The potential lack of a secure place in which to deposit and store cash, the inability to pay creditors through the issuance of checks and the inability to secure traditional forms of operational financing, such as lines of credit, are some of the many challenges presented by the unavailability of traditional banking and financial services. These statutes can impose criminal liability for engaging in certain financial and monetary transactions with the proceeds of a "specified unlawful activity" such as distributing controlled substances which are illegal under federal law, including cannabis, and for failing to identify or report financial transactions that involve the proceeds of cannabis-related violations of the Controlled Substances Act. The Company may also be exposed to the foregoing risks.

As previously introduced, in February 2014, FinCEN issued the FinCEN Memo providing instructions to banks seeking to provide services to cannabis-related businesses. The FinCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of the Bank Secrecy Act. It refers to supplementary guidance that former Deputy Attorney General James M. Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the Controlled Substances Act. Although the FinCEN Memo remains in effect today, it is unclear at this time whether the current administration will follow the guidelines of the FinCEN Memo. Overall, the DOJ continues to have the right and power to prosecute crimes committed by banks and financial institutions, such as money laundering and violations of the Bank Secrecy Act, that occur in any state, including in states that have legalized the applicable conduct and the DOJ's current enforcement priorities could change for any number of reasons. A change in the DOJ's enforcement priorities could result in the DOJ prosecuting banks and financial institutions for crimes that previously were not prosecuted. If the Company does not have access to a U.S. banking system, its business and operations could be adversely affected.

Other potential violations of federal law resulting from cannabis-related activities include the Racketeer Influenced Corrupt Organizations Act ("**RICO**"). RICO is a federal statute providing criminal penalties in addition to a civil cause of action for acts performed as part of an ongoing criminal organization. Under RICO, it is unlawful for any person who has received income derived from a pattern of racketeering activity (which includes most felonious violations of the CSA), to use or invest any of that income in the acquisition of any interest, or the establishment or operation of, any enterprise which is engaged in interstate commerce. RICO also authorizes private parties whose properties or businesses are harmed by such patterns of racketeering activity to initiate a civil action against the individuals involved. Although RICO suits against the cannabis industry are rare, a few cannabis businesses have been subject to a civil RICO action. Defending such a case has proven extremely costly, and potentially fatal to a business' operations.

In the event that any of the Company's operations, or any proceeds thereof, any dividends or distributions therefrom, or any profits or revenues accruing from such operations in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada, and subject the Company to civil and/or criminal penalties. Furthermore, while there are no current intentions to declare or pay dividends on the Company Common Shares or the Company Compressed Shares in the foreseeable future, in the event that a determination was made that the Company's proceeds from operations (or any future operations or investments in the United States) could reasonably be shown to constitute proceeds of crime, we may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time. The Company could likewise be required to suspend or cease operations entirely.

Federal and State Forfeiture Laws

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, seizure of assets, disgorgement of profits, cessation of business activities or divestiture. As an entity that conducts business in the cannabis industry, the Company will be potentially subject to federal and state forfeiture laws (criminal and civil) that permit the government to seize the proceeds of criminal activity. Civil forfeiture laws could provide an alternative for the federal government or any state (or local police force) that wants to discourage residents from conducting transactions with cannabis related businesses but believes criminal liability is too difficult to prove beyond a reasonable doubt. Also, an individual can be required to forfeit property considered to be the proceeds of a crime even if the individual is not convicted of the crime, and the standard of proof in a civil forfeiture matter is lower than the standard in a criminal matter. Depending on the applicable law, whether federal or state, rather than having to establish liability beyond a reasonable doubt, the federal government or the state, as applicable, may be required to prove that the money or property at issue is proceeds of a crime only by either clear and convincing evidence or a mere preponderance of the evidence.

Members of the Company located in states where cannabis remains illegal may be at risk of prosecution under federal and/or state conspiracy, aiding and abetting, and money laundering statutes, and be at further risk of losing their investments or proceeds under forfeiture statutes. Many states remain fully able to take action to prevent the proceeds of cannabis businesses from entering their state. Because state legalization is relatively new, it remains to be seen whether these states would take such action and whether a court would approve it. Members and prospective members of the Company should be aware of these potentially relevant federal and state laws in considering whether to invest in the Company.

Tax Risk

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 issued a clarification allowing the deduction of certain expenses, the scope of such items is interpreted very narrowly and the bulk of operating costs and general administrative costs are not permitted to be deducted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses.

Heightened Scrutiny by Regulatory Authorities

For the reasons set forth above, our existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials.

There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on our ability to operate or invest in the United States or any other jurisdiction, in addition to those described herein.

It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("**CDS**"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. Although the Company currently has no operations in the United States, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to effect a trade of the Common Shares through the facilities of a stock exchange.

In the United States, many clearing houses for major broker-dealer firms, including Pershing LLC, the largest clearing, custody and settlement firm in the United States, have refused to handle securities or settle transactions of companies engaged in cannabis related business. Many other clearing firms have taken a similar approach. This means that certain broker-dealers cannot accept for deposit or settle transactions in the securities of companies, which may inhibit the ability of investors to trade in our securities and could negatively affect the liquidity of our securities.

In addition, on November 24, 2017, the TMX Group provided an update regarding issuers with marijuana-related activities in the United States and confirmed that TMX Group will rely on the Canadian Securities Administrators' recommendation to defer to individual exchange's rules for companies that have marijuana-related activities in the United States and to determine the eligibility of individual issuers to list based on those exchanges' listing requirements. On February 8, 2018, CDS signed a memorandum (the "**CDS MOU**") with Aequitas NEO Exchange Inc., CNSX Markets Inc., TSX Inc., and TSX Venture Exchange Inc. (collectively, the "**Exchanges**"). The CDS MOU outlines CDS' and the Exchanges' understanding of Canada's regulatory framework applicable to the rules and procedures and regulatory oversight of the Exchanges and CDS. The CDS MOU confirms, with respect to the clearing of listed securities, that CDS relies on the Exchanges to review the conduct of listed issuers. As a result, there currently is no CDS ban on the clearing of securities of issuers with marijuana-related activities in the U.S. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to effect a trade of Common Shares through the facilities of a stock exchange.

Although the Company currently has no operations in the United States, any restrictions imposed by the CSE or other applicable exchange on the business of the Company and/or the potential delisting of the Common Shares from the CSE or other applicable exchange would have a material adverse effect on the Company and on the ability of holders of Common Shares to make trades.

Negative Impact of Regulatory Scrutiny on Raising Capital

The Company's business activities rely on newly established and/or developing laws and regulations in multiple jurisdictions, including in Nevada. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the DOJ, the Financial Industry Regulatory Authority or other federal, Nevada or other applicable state or non-governmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or non-medical purposes in the U.S. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the Company's industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its ability to raise additional capital, create a public trading market in the U.S. for securities of the Company or to find a suitable acquirer, which could reduce, delay or eliminate any return on investment in the Company.

Risk of Regulatory or Political Change

The success of the Company's business strategy depends on the legality of the marijuana industry. The political environment surrounding the marijuana industry in general can be volatile and the regulatory framework remains in flux. To our knowledge, there are to date a total of 29 states, and the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam that have legalized cannabis in some form, including Nevada, and additional states have pending legislation regarding the same; however, the risk remains that a shift in the regulatory or political realm could occur and have a drastic impact on the industry as a whole, adversely impacting the Company's business, results of operations, financial condition or prospects.

Delays in enactment of new state or federal regulations could restrict the Company's ability to reach strategic growth targets and lower return on investor capital. The strategic growth strategy of the Company is reliant upon certain federal and state regulations being enacted to facilitate the legalization of medical and adult-use marijuana. If such regulations are not enacted, or enacted but subsequently repealed or amended, or enacted with prolonged phase-in periods, the growth targets of the Company, and thus, the effect on the return of investor capital, could be detrimental. We are unable to predict with certainty when and how the outcome of these complex regulatory and legislative proceedings will affect its business and growth.

Further, there is no guaranty that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing applicable state laws are repealed or curtailed, the Company's business, results of operations, financial condition and prospects would be materially adversely affected. It is also important to note that local and city ordinances may strictly limit and/or restrict disbursement of marijuana in a manner that will make it extremely difficult or impossible to transact business that is necessary for the continued operation of the marijuana industry. Federal actions against individuals or entities engaged in the marijuana industry or a repeal of applicable marijuana related legislation could adversely affect the Company and its business, results of operations, financial condition and prospects.

The Company is aware that multiple states are considering special taxes or fees on businesses in the marijuana industry. It is a potential yet unknown risk at this time that other states are in the process of reviewing such additional fees and taxation. This could have a material adverse effect upon the Company's business, results of operations, financial condition or prospects.

The commercial, medical and adult-use marijuana industries are in their infancy and we anticipate that such regulations will be subject to change as the jurisdictions in which we do business matures. The Company has in place a detailed compliance program overseen and maintained by external state and local regulatory/compliance counsel. The Company's internal compliance team (consisting of managers for each respective business unit) implements the compliance program.

The Company's internal compliance team oversees training for all employees, including on the following topics:

- compliance with state and local laws
- safe cannabis use
- dispensing procedures
- security and safety policies and procedures
- inventory control
- quality control
- transportation procedures

The Company's compliance program emphasizes security and inventory control to ensure strict monitoring of cannabis and inventory from delivery by a licensed distributor to sale or disposal. Only authorized, properly trained employees are allowed to access the Company's computerized seed-to-sale system.

Additionally, the Company has created comprehensive standard operating procedures that include detailed descriptions and instructions for monitoring inventory at all stages of development and distribution. The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program, standard operating procedures, and any changes to regulation in the marijuana industry.

Overall, the medical and adult-use marijuana industry is subject to significant regulatory change at both the state and federal level. The inability of the Company to respond to the changing regulatory landscape may cause it to not be successful in capturing significant market share and could otherwise harm its business, results of operations, financial condition or prospects.

General Regulatory Risks

The Company's business is subject to a variety of laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of marijuana, including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. Achievement of the Company's business objectives are contingent, in part, upon compliance with applicable regulatory requirements and obtaining all requisite regulatory approvals. Changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to the Company.

The Company is required to obtain or renew further government permits and licenses for its current and contemplated operations. Obtaining, amending or renewing the necessary governmental permits and licenses can be a time-consuming process potentially involving numerous regulatory agencies, involving public hearings and costly undertakings on the Company's part. The duration and success of the Company's efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within its control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. The Company may not be able to obtain, amend or renew permits or licenses that are necessary to its operations. Any unexpected delays or costs associated with the permitting and licensing process could impede the ongoing or proposed operations of the Company. To the extent permits or licenses are not obtained, amended or renewed, or are subsequently suspended or revoked, the Company may be curtailed or prohibited from proceeding with its ongoing operations or planned development and commercialization activities. Such curtailment or prohibition may result in a material adverse effect on the Company's business, financial condition, results of operations or prospects.

While the Company's compliance controls have been developed to mitigate the risk of any material violations of any license it holds arising, there is no assurance that the Company's licenses will be renewed by each applicable regulatory authority in the future in a timely manner. Any unexpected delays or costs associated with the licensing renewal process for any of the licenses held by the Company could impede the ongoing or planned operations of the Company and have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require the Company to pay substantial amounts of money, harming its financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of Management's attention and resources or have a material adverse impact on the Company's business, financial condition, results of operations or prospects.

Re-classification of Cannabis in the United States

If cannabis and/or CBD is re-categorized as a Schedule II or lower controlled substance, the ability to conduct research on the medical benefits of cannabis would most likely be improved; however, rescheduling cannabis may materially alter enforcement policies across many federal agencies, primarily the U.S. Food and Drug Administration ("**FDA**"). FDA is responsible for ensuring public health and safety through regulation of food, drugs, supplements, and cosmetics, among other products, through its enforcement authority pursuant to the Federal Food Drug and Cosmetic Act ("**FFDCA**"). FDA's responsibilities include regulating the ingredients as well as the marketing and labeling of drugs sold in interstate commerce. Because cannabis is federally illegal to produce and sell, and because it has no federally recognized medical uses, the FDA has historically deferred enforcement related to cannabis to the DEA; however, the FDA has enforced the FFDCA with regard to hemp-derived products, especially CBD, sold outside of state-regulated cannabis businesses. If cannabis were to be rescheduled to a federally controlled, yet legal, substance, FDA would likely play a more active regulatory role. Further, in the event that the pharmaceutical industry directly competes with state-regulated cannabis businesses for market share, as could potentially occur with rescheduling, the pharmaceutical industry may urge the DEA, FDA, and others to enforce the CSA and FFDCA against businesses that comply with state but not federal law. The potential for multi-agency enforcement post-rescheduling could threaten or have a materially adverse effect on the operations of existing state-legal cannabis businesses, including the Company.

Even though certain U.S. and state statutes authorize the cultivation and transportation of CBD under certain circumstances, the DEA has determined that all CBD products, regardless of origin, are considered Schedule I controlled substances and issued a drug code for CBD. The United States Court of Appeals for the Ninth Circuit recently heard oral arguments challenging the DEA's drug code for "marihuana extracts". There can be no assurance as to the outcome of this case and regardless of such outcome, the Company is unable to determine what the impact of this drug code will be on its business.

Availability of U.S. Federal Patent and Trademark Protection

As long as cannabis remains illegal under U.S. federal law, the benefit of certain federal laws and protections which may be available to most businesses, such as federal trademark and patent protection regarding the intellectual property of a business, may not be available to the Company. As a result, the Company's intellectual property may never be adequately or sufficiently protected against the use or misappropriation by third-parties. In addition, since the regulatory framework of the cannabis industry is in a constant state of flux, the Company can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

Reliance on Third-Party Suppliers

The Company is reliant on third-party suppliers to develop and manufacture its products. Due to the uncertain regulatory landscape for regulating cannabis in the United States, the Company's third party suppliers, manufacturers and contractors may elect, at any time, to decline or withdraw services necessary for the Company's operations. Loss of these suppliers, manufacturers and contractors may have a material adverse effect on the Company's business and operational results.

Enforceability of Contracts

Due to the nature of the Company's business and the fact that its contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in federal and certain state courts. The inability to enforce any of the Company's contracts could have a material adverse effect on the Company's business, operating results, financial condition or prospects.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not party to, nor is any of the Company's property the subject of, any legal proceedings, nor, to the best of the Company's knowledge, are any such legal proceedings contemplated.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as disclosed in this Prospectus no director, executive officer or principal shareholder of the Company, or an associate or affiliate of a director, executive officer or principal shareholder of the Company, has any material interest, direct or indirect, in any transaction which has occurred within the three years before the date of this Prospectus, or in any proposed transaction that has materially affected or will materially affect the Company.

LEGAL MATTERS

Certain Canadian legal matters relating to the Offering will be passed upon on our behalf by Cassels Brock & Blackwell LLP, and on behalf of the Agents by Bennett Jones LLP. The partners and associates of Cassels Brock & Blackwell LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding securities of any class of the Company. The partners and associates of Bennett Jones LLP, collectively, beneficially own, directly and indirectly, less than 1% of the issued and outstanding securities of any class of the Company.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Auditors

The Company's auditor is M&K CPAS PLLC, 363 N. Sam Houston Parkway E., Suite 650, Houston, Texas, United States 77060.

Transfer Agent and Registrar

The registrar and transfer agent of the Common Shares is V Stock Transfer, LLC, 18 Lafayette Place, Woodmere, NY 11598.

The Special Warrant Agent and Warrant Agent is Odyssey Trust Company, Stock Exchange Tower, 350-300 5th Avenue SW, Calgary, Alberta, Canada T2P 3C4.

MATERIAL CONTRACTS

The Company or one or more of its subsidiaries have entered into the following contracts which are material:

(a) the Acquisition Agreement;

(b) the Agency Agreement;

(c) the Special Warrant Indenture; and

(d) the Warrant Indenture.

Copies of the above material contracts are available electronically on the Company's EDGAR profile at www.sec.gov.

EXPERTS

The following persons or companies whose profession or business gives authority to a statement made by the person or company are named in this Prospectus as having prepared or certified a part of this document or a report of valuation described in this Prospectus:

1. The audited financial statements of the Company included in this Prospectus have been included in reliance upon the report of M&K CPAS PLLC, 363 N. Sam Houston Parkway E., Suite 650, Houston, Texas, United States 77060 and upon the authority of such firm as experts in accounting and auditing.

Based on information provided by the relevant persons, none of such persons or companies or any director, officer, employee or partner thereof have received or will receive direct or indirect interest in the property of the Company or of any associate or affiliate of the Company or have any beneficial ownership, direct or indirect, of securities of the Company. None of such persons is or is expected to be elected, appointed or employed as a director or employee of the Company.

OTHER MATERIAL FACTS

There are no other material facts other than as disclosed herein.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in the Qualifying Jurisdictions provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after Receipt or deemed Receipt of a Prospectus and any amendment. In several of the Qualifying Jurisdictions, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the Prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

In addition, the Company has granted each holder of a Special Warrant a contractual right of rescission of the Offering. The contractual right of rescission provides that if a holder of a Special Warrant who acquires another security of the Company on exercise of the Special Warrant as provided for in this Prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of this Prospectus or an amendment to this Prospectus containing a misrepresentation, (a) the holder is entitled to rescission of both the holder's exercise of its Special Warrant and the Offering; (b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the Agent or the Company, as the case may be, on the acquisition of the Special Warrant; and (c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with U.S. GAAP, have been included in this Prospectus:

(a) the interim financial statements of the Company as at and for the three and nine month periods ended February 28, 2018 and 2017;

(b) the audited annual financial statements of the Company for the fiscal years ended May 31, 2017, May 31, 2016 and May 31, 2015;

(c) the interim financial statements of Alternative Solutions as at and for the three month period ended March 31, 2018 and 2017;

(d) the audited consolidated financial statements of Alternative Solutions for the years ended December 31, 2017 and December 31, 2016; and

(e) pro forma financial information of the Company and Alternative Solutions for the 3 month period ending February 28, 2018 and the 12 month period ended May 31, 2017.

GLOSSARY OF TERMS

"**Audit Committee**" means the Audit Committee of the Board of Directors.

"**Acquisition**" has the meaning ascribed thereto in the section of this Prospectus titled "*History – Acquisition of Alternative Solutions*".

"**Acquisition Agreement**" has the meaning ascribed thereto in the section of this Prospectus titled "*History – Acquisition of Alternative Solutions*".

"**Agency Agreement**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Agent**" means Canaccord Genuity Corp.

"**Agent's Fee**" means the cash fee of 8.0% of the gross proceeds from the Offering paid to the Agent.

"**Alternative Solutions**" means Alternative Solutions, LLC.

"**Amendment**" has the meaning ascribed thereto in the section of this Prospectus titled "*U.S. Regulatory Environment – United States Enforcement Proceedings*".

"**Binder Convertible Note**" has the meaning ascribed thereto in the section of this Prospectus titled "*Director Indebtedness – Binder Notes*".

"**Board of Directors**" or "**Board**" means the board of directors of the Company.

"**Broker Warrants**" has the meaning ascribed thereto on the face page of this Prospectus.

"**CBD**" means cannabidiol.

"**CDS**" means CDS Clearing and Depository Services Inc.

"**CDS MOU**" means the memorandum with Aequitas NEO Exchange Inc., CNSX Markets Inc., TSX Inc., and TSX Venture Exchange Inc. signed by CDS on February 8, 2018.

"**CEO**" means chief executive officer.

"**CFO**" means chief financial officer.

"**City Trees**" means City Trees Cultivation and City Trees Production.

"**City Trees Cultivation**" means Serenity Wellness Growers, LLC dba City Trees Fresh Cannabis Cultivation, Wholesale.

"**City Trees Production**" means Serenity Wellness Products, LLC dba City Trees Fresh Cannabis Production, Wholesale.

"**Closing Consideration**" has the meaning ascribed thereto in the section of this Prospectus titled "*History – Acquisition of Alternative Solutions*".

"**Closing Date**" means June 20, 2018, being the closing date of the Offering.

"**Cole Memorandum**" or "**Cole Memo**" has the meaning ascribed thereto in the section of this Prospectus titled "*Enforcement of United States Federal Laws*".

"**Cole Banking Memorandum**" has the meaning ascribed thereto in the section of this Prospectus titled "*Enforcement of United States Federal Laws*".

"**Colorado Arrangement**" has the meaning ascribed thereto in the section of this Prospectus titled "*History*".

"**Common Shares**" means the shares of common stock in the capital of the Company.

"**Company**" or "**CLSH**" means CLS Holdings USA Inc., unless otherwise noted or the context indicates otherwise, its direct and indirect subsidiaries.

"**Consolidated Financial Statements**" has the meaning ascribed thereto in the section of this Prospectus titled "*Financial Statement Presentation in this Prospectus*".

"**Controlled Substances Act**" means the U.S. Controlled Substance Act of 1970.

"**Corporate Finance Fee Special Warrants**" has the meaning ascribed thereto on the face page of this Prospectus.

"**CSA**" means the Canadian Securities Administrators.

"**CSE**" means the Canadian Securities Exchange.

"**DEA**" means the U.S. Drug Enforcement Agency.

"**Deemed Exercise Date**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Deemed Exercise Time**" means 5:00 PM (Toronto time) on the Deemed Exercise Date.

"**DOJ**" means the U.S. Department of Justice.

"**Exchanges**" means collectively, Aequitas NEO Exchange Inc., CNSX Markets Inc., TSX Inc., and TSX Venture Exchange Inc.

"**FinCEN**" has the meaning ascribed thereto in the section of this Prospectus titled "*U.S. Regulatory Environment – Enforcement of United States Federal Laws*".

"**FinCEN Memorandum**" or "**FinCEN Memo**" has the meaning ascribed thereto in the section of this Prospectus titled "*U.S. Regulatory Environment –Enforcement of United States Federal Laws*".

"**FINRA**" means the U.S. Financial Industry Regulatory Authority.

"**Greenhouse Expansion**" has the meaning ascribed thereto in the section of this Prospectus titled "*Overview*".

"**Insider Loans**" has the meaning ascribed thereto in the section of this Prospectus titled "*History*".

"**Insiders**" has the meaning ascribed thereto in the section of this Prospectus titled "*History*".

"**Listing Date**" means the date the Common Shares are listed on a recognized Canadian stock exchange.

"**Management**" means the management of the Company.

"**MD&A**" means Management's Discussion and Analysis included in this Prospectus.

"**Merger**" has the meaning ascribed thereto in the section of this Prospectus titled "*Name, Incorporation and Overview*".

"**Merger Sub**" has the meaning ascribed thereto in the section of this Prospectus titled "*History*".

"**NEOs**" has the meaning ascribed thereto in the section of this Prospectus titled "*Executive Compensation*".

"**Newcan**" means Newcan Investment Partners, LLC, an affiliate of Frank Koretsky.

"**NI 52-110**" has the meaning ascribed thereto in the section of this Prospectus titled "*Corporate Governance - Board of Directors*".

"**NP 46-201**" has the meaning ascribed thereto in the section of this Prospectus titled "*Escrowed Securities*".

"**NV DOT**" means the Nevada Department of Taxation.

"**Oasis**" means Serenity Wellness Center, LLC dba Oasis Cannabis.

“**Oasis Note**” has the meaning ascribed thereto in the section of this Prospectus titled “*History – Acquisition of Alternative Solutions*”.

“**Oasis Subsidiaries**” means Oasis and City Trees.

“**Offering**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Offering Price**” means CAD$0.45 per Special Warrant.

“**Offering Special Warrants**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Omnibus Loan Agreement**” has the meaning ascribed thereto in the section of this Prospectus titled “*History*”.

“**OTCQB**” means the OTQB Venture Market.

“**Penalty Units**” has the meaning ascribed thereto in the section of this Prospectus titled “*History – 2018 Special Warrant Financing*”.

“**PRH**” has the meaning ascribed thereto in the section of this Prospectus titled “*History*”.

“**Principal**” has the meaning ascribed there in NP 46-201.

“**Prospectus**” means this Prospectus.

“**Purchase Price Shares**” has the meaning ascribed thereto in the section of this Prospectus titled “*History – Acquisition of Alternative Solutions*”.

“**Qualification Date**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Qualifying Jurisdictions**” means the provinces of British Columbia, Alberta, Manitoba and Ontario.

“**Receipt**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Registration Statement**” has the meaning ascribed thereto in the section of this Prospectus titled “*Plan of Distribution*”.

“**Retail Facility**” has the meaning ascribed thereto in the section of this Prospectus titled “*Overview*”.

“**RICO**” means the United States Racketeer Influenced Corrupt Organizations Act.

“**RRIFs**” means registered retirement income funds.

“**RRSPs**” means registered retirement savings plan.

“**SEC**” means the U.S. Securities and Exchange Commission.

“**Securities Commissions**” means the securities regulatory authorities in the Qualifying Jurisdictions.

“**Sessions Memorandum**” has the meaning ascribed thereto in the section of this Prospectus titled “*Enforcement of United States Federal Laws*”.

“**Special Warrant Agent**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Special Warrant Indenture**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Special Warrants**” has the meaning ascribed thereto on the face page of this Prospectus.

“**Staff Notice 51-352**” means CSA Staff Notice 51-352 (Revised) – *Issuers with U.S. Marijuana-Related Activities*.

“**Tax Act**” means the *Income Tax Act* (Canada).

“**TFSAs**” means tax-free savings accounts.

"**THC**" means Delta-9-tetrahydrocannabinol.

"**Time of Expiry**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Unit Share**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Units**" has the meaning ascribed thereto on the face page of this Prospectus.

"**USAM**" has the meaning ascribed thereto in the section of this Prospectus titled "*Enforcement of United States Federal Laws*".

"**U.S.**" means the United States of America.

"**U.S. Securities Act**" means United States Securities Act of 1933, as amended.

"**Warehouse Facility**" has the meaning ascribed thereto in the section of this Prospectus titled "*Overview*".

"**Warrant**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Warrant Agent**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Warrant Indenture**" has the meaning ascribed thereto on the face page of this Prospectus.

"**Warrant Share**" has the meaning ascribed thereto on the face page of this Prospectus.

SCHEDULE "A"

FINANCIAL STATEMENTS OF THE COMPANY

[See attached.]

SCHEDULE "B"

MD&A OF THE COMPANY

[See attached.]

SCHEDULE "C"

FINANCIAL STATEMENTS OF ALTERNATIVE SOLUTIONS

[See attached.]

SCHEDULE "D"

MD&A OF ALTERNATIVE SOLUTIONS

[See attached.]

SCHEDULE "E"

PRO FORMA FINANCIAL STATEMENTS

[See attached.]

CERTIFICATE OF CLS HOLDINGS USA, INC.

Dated August 2, 2018

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation of each of the Qualifying Jurisdictions.

(signed) "Jeffrey Binder"	*(signed) "Frank Tarantino"*
Jeffrey Binder President and Chief Executive Officer	Frank Tarantino Chief Financial Officer

On behalf of the Board of Directors

(signed) "Andrew Glashow"	*(signed) "Frank Koretsky"*
Andrew Glashow Director	Frank Koretsky Director

CERTIFICATE OF THE AGENT

Dated August 2, 2018

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plan disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation of each of the Qualifying Jurisdictions.

CANACCORD GENUITY CORP.

(signed) "Graham Saunders"

Graham Saunders
Vice Chairman, Managing Director
Head of Capital Markets Origination

SCHEDULE "A"

FINANCIAL STATEMENTS OF THE COMPANY

[See attached.]

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

FORM 10-K

(Mark One)
☒ ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: **May 31, 2017**

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

For the transition period from ________ to ________

Commission File No.: **333-174705**

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

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

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

(888) 438-9132
(Registrant's telephone number)

Securities registered under Section 12(b) of the Exchange Act:

None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value $.0001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 ☐ (Do not check if smaller reporting company)	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 aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $3,009,002.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 32,876,944 shares of common stock, par value $0.0001, as of August 17, 2017.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Cautionary Note Regarding Forward-Looking Statements

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

These forward-looking statements are only predictions, are uncertain and involve substantial known and unknown risks, uncertainties and other factors which may cause our (or our industry's) actual results, levels of activity or performance to be materially different from any future results, levels of activity or performance expressed or implied by these forward-looking statements. The "Risk Factors" section of this annual report sets forth detailed risks, uncertainties and cautionary statements regarding our business and 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, including the securities laws of the United States, 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, including annual and quarterly reports, can be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission ("SEC") at 100 F Street, N.E., Washington, D.C. 20549. Stockholders may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Stockholders can request copies of these documents upon payment of a duplicating fee by writing to the SEC. The reports we file with the SEC are also available on the SEC's website (http://www.sec.gov).

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PART I

Item 1. Business

Background

We were originally incorporated as Adelt Design, Inc. on March 31, 2011 to manufacture and market carpet binding art. Production and marketing of carpet binding art never commenced. After CLS Labs, Inc. ("CLS Labs") acquired 55.6% of the outstanding shares of common stock of the Company, Jeffrey Binder, the Chairman, President and Chief Executive Officer of CLS Labs, was appointed Chairman, President and Chief Executive Officer of the Company. Subsequently, the Company adopted amended and restated articles of incorporation, thereby changing its name to CLS Holdings USA, Inc.

The Merger

On April 29, 2015, the Company entered into a merger agreement with CLS Labs and a newly-formed, wholly owned subsidiary of the Company (the "Merger Sub") and effected the Merger (the "Merger"). Upon the consummation of the Merger, the separate existence of the Merger Sub ceased and CLS Labs, the surviving corporation in the Merger, became a wholly owned subsidiary of the Company, with the Company acquiring the stock of CLS Labs, abandoning its previous business, and adopting the existing business plan and operations of CLS Labs. CLS Labs is a company that plans to generate revenues through licensing, fee-for-service and joint venture arrangements related to its patent pending proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

Operations

For the past four years, one of the founders of CLS Labs has been developing 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 e-cigarettes, and used for a variety of pharmaceutical and other purposes. Internal testing of the cannabinoids extracted through our patent-pending proprietary process versus the cannabinoids resulting from the processes commonly used in the industry, the results of which were reviewed and confirmed by an independent laboratory, has revealed that our process 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 patent pending proprietary methods and processes by entering into the Colorado Arrangement, as described below. Recently, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined when we will pursue it again. Instead, we plan to pursue other revenue producing opportunities, including our non-binding letter of intent with Pure Harvest, as described below, in other states through the acquisition of cannabis and other complementary companies. CLS Labs had not otherwise commercialized its patent pending proprietary process prior to the Merger and has not earned any revenues.

We intend to monetize this extraction method and generate revenues through (i) the licensing of our patent pending proprietary methods and processes to others, as in the Colorado Arrangement, (ii) the processing of cannabis for others, and (iii) the purchase of cannabis and the processing and sale of cannabis-related products. We plan to accomplish this through the 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 ("CLS Consulting"), which will generate revenue by providing consulting services to cannabis-related businesses, including growers, dispensaries and laboratories, and driving business to our processing facilities.

Our mission is to be the industry leader in the extraction, conversion and marketing of cannabinoid oils, wax, edibles and shatter by leveraging our extraction methods and conversion processes. We have an experienced team of executives and consultants who each contribute significant value in the scientific, marketing and licensure arenas. Jeffrey Binder, a founder of CLS Labs and our Chairman, President and Chief Executive Officer, is a seasoned executive with experience in the strategic start-up and growth of companies in several different industries. Raymond Keller, a founder of CLS Labs, developed the aforementioned patent pending proprietary process of extracting, cleaning and converting the cannabinoids from the cannabis plant and the associated delivery materials and systems for such cannabinoids. Frank Koretsky, a founder of CLS Labs and director of the Company, is a successful entrepreneur who has proven to be a marketing and brand specialist. Alan Bonsett, our Chief Operating Officer, has extensive experience in the cannabis industry, spanning production and processing facility buildouts, business development and strategic planning, licensing and compliance, and supply chain management.

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Mr. Keller developed our patent pending proprietary process for extracting, cleaning and converting cannabinoids from cannabis plants. He has also created various delivery systems and materials to ready the converted cannabis product for different uses by different potential distributors. Mr. Keller contributed this intellectual property to CLS Labs in exchange for stock in CLS Labs, which was subsequently exchanged for stock in the Company in the Merger. A patent application has been filed with respect to the process. As there can be no assurances that the application will be granted, the process is currently maintained as a trade secret by the Company. We believe that this patent pending proprietary process will allow us to extract and convert cannabinoids contained in cannabis in a manner that produces a greater yield than methods currently used in the industry. We believe this ability and the ability to convert these refined cannabinoids into products that can be used in multiple delivery systems will provide us with a strategic advantage in the cannabis industry.

Competitive Advantages

Our patent pending proprietary process is expected to reduce growers' costs and provide them with double the amount of Delta-9 THC compared to our competitors.

Although the current standard within the marijuana extraction industry is to process only the bud and trim from plants, the sophistication of our lab and patent pending proprietary process allow us to use the entire plant, with no trimming or preparation required by the grower prior to delivery. We estimate that this will result in cost savings for growers of 18%-22% versus our competitors' current methods. Further, the trimming process damages some of the crystals present on the plants, thus reducing the levels of Delta-9 THC, marijuana's primary psychoactive ingredient. By processing the entire plant, we expect to eliminate this loss of crystals. We believe that this, along with our patent pending proprietary extraction and conversion method, will result in a concentration of Delta-9 THC that is approximately twice that of the current industry standard.

We expect to produce a much larger amount of Delta-9 THC from plants resulting in higher revenues to us.

As it is customary within the industry to charge growers per gram of Delta-9 THC returned to them following processing, in producing twice the concentration of Delta-9 THC, we anticipate that we will generate per-plant revenues twice that of the current industry standard while also providing greater per-plant value to growers.

Our patent pending proprietary process is expected to result in market-changing product consistency.

The sophistication of our patent pending proprietary process and proposed labs will allow us to analyze, break down and mix the various cannabinoids extracted from marijuana plants. Doing so will allow us to control the different cannabinoid levels in our products, and should result in market-changing product consistency. As the cannabinoid makeup of plants varies significantly from grower-to-grower, the products generated by most extractors vary based on the source of the plants. Our potential ability to produce a consistent product regardless of the grower will likely be highly desirable among both consumers looking for reliable products and dispensaries desiring to market a consistent brand of products sourced from multiple growers.

We expect to produce cleaner, safer products as a result of the advanced testing that will be used at our sophisticated labs.

Although states currently require testing of marijuana plants for certain chemicals and pesticides prior to processing, such testing does not identify many harmful and undesirable contaminates such as heavy metals, which might be present in plants as a by-product of certain fertilizers used in their growth. Through our patent pending proprietary process, we will conduct testing that is significantly more extensive than current state laws require or industry standards dictate, then remove such harmful contaminates. This should result in a cleaner, safer product that we believe will be preferred by growers and consumers alike.

We expect to provide one-stop, multi-state services to companies wishing to build private label brands that deliver consistent products.

Marijuana cannot currently be transported across state lines, which means that a processor with a single facility cannot process marijuana grown in more than one state. This means that companies that wish to produce private label products in multiple states must contract with multiple processors to process, package and label their products, which leads to a lack of internal consistency within the brand. Our multi-state business plan should allow us to provide consistent processing, packaging and labeling services, setting us apart from these "mom and pop" extractors prevalent in the industry. This should allow us to produce currently unavailable multi-state consistency in private label products.

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The Colorado Arrangement

As CLS Labs is currently unable to obtain a license in Colorado to operate a cannabis processing facility due to residency requirements, on April 17, 2015, it entered into an arrangement through CLS Labs Colorado with Picture Rock Holdings, LLC ("PRH"), which will be licensed by the State of Colorado as a marijuana infused product manufacturer and retailer, to, among other things, (i) license its patent pending proprietary technology, methods and processes to PRH in exchange for a fee; (ii) build a processing facility and lease such facility, including equipment, to PRH; and (iii) loan certain funds to PRH to be used by PRH in connection with its financing of the building out, equipping, and development of the grow facility that will be operated by a licensed third-party marijuana grower (the "Grower").

Licensing Agreement

On April 17, 2015, CLS Labs Colorado entered into a Licensing Agreement with PRH whereby, in exchange for a license fee payable over the ten (10) year term of the agreement, CLS Labs Colorado granted to PRH an exclusive license for the State of Colorado of certain proprietary inventions and formulas relating to the extraction from, separation and processing (the "Process") of marijuana to produce certain marijuana-infused products, including edibles, e-liquids, waxes and shatter (the "Products"), and to practice and use the Process in conjunction with the manufacture, production, sale, and distribution of the Products. The Licensing Agreement was subsequently amended effective June 30, 2015, October 31, 2015, April 11, 2016 and May 31, 2016. Pursuant to the Licensing Agreement, as amended, its term will commence once CLS Labs Colorado has completed building a fully equipped lab at the Leased Real Property and payments by PRH to CLS Labs Colorado will commence in the month following the month in which PRH commences generating revenue through the grow facility.

CLS Labs Colorado is currently unable to estimate when it will commence generating revenue through the grow facility due to difficulties it has encountered in obtaining regulatory approvals required to complete construction of its processing facility. Pursuant to Colorado law, PRH cannot obtain Colorado marijuana-infused products licenses (the "MIP Licenses") for the Leased Real Property until the processing facility is built out and ready for operation. PRH has an agreement with one of its affiliates that holds the required MIP Licenses to transfer such MIP Licenses to PRH, subject to State of Colorado Department of Revenue Marijuana Enforcement Division ("MED") approval, within three (3) days after the MED is ready to attached the MIP Licenses to the Leased Real Property. However, CLS Labs Colorado has been advised that the solutions to be used in its proprietary conversion process are not included in Colorado's list of designated solutions that may be used for cannabis extraction. We have advised the state that the solutions will be used in the conversion, not the extraction, process. The matter has been referred to the Colorado attorney general's office for consideration. We cannot complete the construction of our processing facility until this matter is resolved. Based on our internal review, similar requirements relating to either extraction or processing do not exist in other relevant states. Assuming this issue is resolved favorably to us, we would anticipate completion of our Colorado processing facility and the commencement of operations by PRH within six months after such resolution, and we would anticipate the receipt of revenues from PRH between 30 and 90 days after it commences operations. Due to the delays, however, we have decided to place our proposed Colorado operations on hold and pursue revenue producing opportunities in other states. Once we commence generating revenues elsewhere, we will likely re-visit our plans in Colorado.

Pursuant to the Licensing Agreement, if during its term, applicable state and local laws change to permit, in whole or in part, the ownership or issuance of a MIP License, directly or indirectly, by or to a person or entity who is not a Colorado resident, CLS Labs Colorado has the option to demand the transfer of up to a fifty six percent (56%) ownership interest in the MIP Licenses owned by PRH to CLS Labs Colorado or its designees. In exchange for such a transfer, the license fee due to CLS Labs Colorado under the Licensing Agreement will be reduced in proportion to the percentage ownership interest in the MIP Licenses transferred by PRH to CLS Labs Colorado or its designees.

Lease and Sublease

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

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Contemporaneously with the execution of the Lease, CLS Labs Colorado entered into a Sublease Agreement with PRH (the "Sublease"), thereby subletting the entire Leased Real Property to PRH. The Sublease was subsequently amended effective October 31, 2015, April 11, 2016 and May 31, 2016. Pursuant to the Sublease, as amended, rent payments will commence in the month following the date upon which PRH commences generating revenues through the grow facility, which commencement is anticipated to occur in the first quarter of 2017. The balance of the terms of the Sublease is the same as the Lease and PRH is required to pay CLS Labs Colorado monthly rent equal to the total rent due under the Lease for the corresponding month. As a result of our decision to suspend our plans to enter the Colorado market, PRH has vacated the subleased premises but the sublease remains effective.

Equipment Lease

In addition to the above-referenced Sublease, on April 17, 2015, CLS Labs Colorado and PRH entered into an Equipment Lease Agreement (the “Equipment Lease”) whereby, in exchange for a lease payment, CLS Labs Colorado agreed to commence building a fully equipped lab at the Leased Real Property, including purchasing all equipment necessary to extract, convert and provide quality control of all cannabis products of PRH. The term of the Equipment Lease commences upon delivery of the equipment and terminates upon the earlier of ten (10) years from its effective date or such earlier date upon which the Lease is terminated. PRH has the option to renew the Equipment Lease for a period of five (5) years, or such lesser period as remains under the Lease at the time of the renewal.

If during the term of the Equipment Lease applicable state and local laws change to permit, in whole or in part, the ownership or issuance of an MIP License, directly or indirectly, by or to a person or entity who is not a Colorado resident, CLS Labs Colorado has the option to demand the transfer of up to a fifty six percent (56%) ownership interest in the MIP Licenses owned by PRH to CLS Labs Colorado or its designees. In the event of a transfer of MIP Licenses by PRH to CLS Labs Colorado or its designees, the payment due to CLS Labs Colorado under the Equipment Lease will be reduced proportionally by the percentage ownership interest in the MIP Licenses that is transferred.

The Promissory Note

On April 17, 2015, CLS Labs Colorado loaned Five Hundred Thousand Dollars ($500,000) to PRH pursuant to a promissory note (the “Note”) to be used by PRH in connection with the financing of the building out, equipping, and development of the grow facility by PRH that will be operated by the Grower. Pursuant to the Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016 and May 31, 2016, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing in the month following the month in which PRH commences generating revenue at the grow facility, which commencement is currently unknown, and continuing until paid in full. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing after such initial payment and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on the five-year anniversary of the initial payment thereunder. Due to the suspension of our plans to enter the Colorado market, we cannot predict when or if the Note will be paid.

Sale of Non-Pharmaceutical Solutions

In connection with the Colorado Arrangement, CLS Labs Colorado intends to enter into an agreement with PRH whereby PRH will purchase from CLS Labs certain proprietary, non-pharmaceutical solutions developed by CLS Labs or its affiliates that enable consumers who ingest the Products to absorb a greater percentage of the cannabinoid extracts contained therein and, in turn, will enable PRH to incorporate a lower percentage of cannabinoid extracts in the Products without diminishing the potency thereof. The terms of the proposed arrangement have not been finalized and a definitive agreement between the parties has not been reached.

Pure Harvest Transaction

As previously announced, we recently entered into a non-binding letter of intent with Pure Harvest Cannabis Producers, Inc., or Pure Harvest, a development stage cannabis company, which plans to become a licensed vertically integrated cannabis business involved in all aspects of the cannabis cycle, including plant science, cultivation, production, medical and recreational dispensaries and delivery. Pure Harvest intends to accomplish this through an active acquisition strategy combined with greenfield development. The CEO of Pure Harvest, David Lamadrid, is expected to join us as our new CEO if and when the transaction closes. Upon closing, we will likely relocate to Las Vegas, Nevada and change our name to "Pure Harvest Cannabis Producers, Inc." Jeffrey Binder is expected to remain on the board of directors of the combined company. Due diligence is proceeding at this time and we are developing the terms of the transaction, which may include directly acquiring a third party operating entity that had been in discussions previously with Pure Harvest. We have not yet executed any definitive agreements with Pure Harvest and so there can be no assurance that the transaction will close or what the ultimate terms of the transaction will be.

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Products and Services

Licensing Operations

In states such as Colorado, where we are unable to obtain a license to operate a cannabis processing facility due to residency or other requirements that we cannot meet, we will continue to enter into arrangements similar to the Colorado Arrangement, whereby we will agree to build out a processing facility and then lease the facility and equipment therein to the customer for what will generally be a ten year term. As part of this arrangement, the customer will be required to enter into an agreement of equal length to license our proprietary technology, methods and processes solely for use in the processing facility.

Processing Revenue

We also intend to enter into arrangements with cannabis growers whereby we will process their cannabis for a fee. Under such arrangements, growers will deliver cannabis plants to one of our facilities for processing. We will then apply our proprietary extraction and conversion technology to generate cannabinoid concentrates which may be delivered to the grower in bulk form or, for an additional fee, in individually-labeled retail-ready packages of oils, edibles, wax or shatter. In exchange for our services, we will either charge the grower a flat fee by weight of the finished product or, in certain instances, we may render our services in exchange for a percentage of the finished product which we will then sell to cannabis distributors or dispensaries.

Processing Facilities

We may lease buildings at which to construct processing facilities. The revenue generated from processing will vary, state by state and facility by facility, depending upon state law requirements and other factors.

Sale of Products and Brand Creation

Rather than charging growers a fee for our processing services, we may at times purchase unprocessed cannabis plants from growers, process the cannabis in our facility, and then sell the resulting cannabinoid concentrates, such as oils, wax, edibles and shatter, in the wholesale market to distributors or dispensaries. Eventually, we may explore creation of our own brand of concentrates for consumer use, which we would wholesale to cannabis dispensaries. We believe that by standardizing our quality, testing, compliance and labeling, we can create a national brand of concentrates that will be instantly recognizable in each new state that legalizes marijuana sales.

Consulting Services

Through CLS Consulting, we will offer consulting services to cannabis-related businesses such as growers and dispensaries. CLS Consulting consultants will advise clients regarding a variety of areas, such as licensure, growing, marketing and distribution. In addition to the revenue generated for consulting services, we anticipate that CLS Consulting will generate processing and sales business for the Company from grower and dispensary clients.

Growth Strategy

Our growth strategy includes the following plans:

- Securing capital for the construction of processing centers.
- Obtaining the necessary state and local licensure for each proposed facility.
- Securing initial licensing, processing or sales arrangements, as applicable, with growers and dispensaries. Such arrangements may result from marketing efforts, relationships within the industry or the CLS Consulting business.

- Constructing processing facilities.
- Expanding per-facility capacity and increasing revenues.
- Developing a national brand of cannabis concentrates, which will be sold wholesale to dispensaries, through standardization of the testing, compliance and labeling process.

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We may also grow by acquiring existing cannabis industry companies that will benefit from the use of our proprietary technology as well as other companies in the cannabis industry that are compatible with our proposed operations, including but not limited to completion of the proposed Pure Harvest transaction.

Marketing, Distribution and Customers

The medical marijuana industry is rapidly expanding and is expected to continue to expand as additional states legalize marijuana for medical use. Additionally, the recreational use of marijuana by adults is currently legal in eight states and the District of Columbia and a number of states have decriminalized the use of marijuana in some fashion. As various states continue to legalize marijuana for medical and/or recreational use, the number of potential grower and dispensary clients is expected to increase accordingly.

As such, our initial target market consists of licensed cannabis growers and dispensaries. As 10-20% of the cannabis plants harvested by licensed growers are currently being converted to cannabinoid oil, growers are expected to immediately recognize the value added by our premier methods, which should generate higher profit margins by producing a higher yield of cannabinoid oil per pound of cannabis versus the methods that are currently being employed. As our competitive advantage is directly related to our patent pending proprietary extraction method and conversion process, and as the value of our services should be immediately recognizable, we intend to target licensed, operating growers and dispensaries with an immediate and substantial need for cannabis processing. Upon attaining significant market share among growers and dispensaries, we may also target pharmaceutical clientele and other potential customers.

In cases where we either purchase cannabis for processing or keep a portion of the converted cannabis in exchange for processing a larger amount of product for a grower, we will likely sell such processed product either to the grower or dispensary who sold or supplied us with the raw cannabis or sell the processed product to an unrelated distributor or dispensary. In some cases, we might also process the product and package it for a certain type of use, such as an edible, and sell the processed product to a licensed bakery.

Competition

The cannabinoid extraction business is extremely competitive. We will compete with numerous entities engaged in cannabinoid extraction and conversion, from large commercial enterprises to local “mom and pop” extractors that provide services and wholesale concentrates to local growers. Although many of our expected competitors enjoy established relationships with growers and dispensaries, we intend to differentiate our company by producing higher quality, tested and labeled products and generating a higher yield, and therefore higher profit margins, for growers and dispensaries. A significant challenge that we will encounter, however, is that the quality of cannabis products is not presently regulated or standardized. Products bear quality and concentration labels, but these labels may or may not be accurate or the result of scientific testing. As a result, we will have to educate the market about the value of our testing, compliance and labeling and the higher quality of the cannabinoid concentrates produced by our patent pending proprietary process as we cannot readily compare laboratory results of our products to other products on the market.

Trademarks and Other Intellectual Property

We have applied for United States federal trademarks for the names Cannabis Life Sciences and CLS Labs. Due to federal laws against the use of cannabis, we are uncertain whether any trademark that includes a reference to cannabis will issue. We have also acquired the Cannabis Life Science, Cannabis Life Sciences and CLS Labs domain names.

Our extraction and processing methods are proprietary, but we do not currently have any issued patents with respect to them. We filed a patent application regarding our proprietary process on October 27, 2015. This patent, if granted, is expected to result in market-changing product consistency, cost savings for growers, and increased anticipated revenues for us due to the larger amount of Delta-9 THC that we believe we can produce through our patent pending proprietary process. As with our trade market, there can be no assurances that the patent application will be granted, for, among other reasons, the fact that it references cannabis.

Until such time as our patent application is granted (assuming it will be granted), we will rely on a combination of confidentiality agreements and procedures as well as trademark and trade secret laws to protect our intellectual property rights with respect to our proprietary process. Our means of protecting our proprietary rights, however, may not be adequate. Despite our efforts, we may be unable to prevent or deter infringement or other unauthorized use of our intellectual property. Time-consuming and expensive litigation may be necessary in the future to enforce these intellectual property rights even if our patent application is granted.

In addition, although we do not believe we are infringing on the rights of others, we cannot assure you that our intellectual property does not infringe the intellectual property rights of others, or will not in the future. If we become liable to third parties for infringing upon their intellectual property rights, we could be required to pay substantial damage awards and be forced to develop non-infringing methods and processes.

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Regulation and Licensure

Despite 29 states and the District of Columbia having legalized or decriminalized marijuana use for medical purposes, the prescription, use and possession of marijuana remains illegal under federal law. As such, although we will only operate processing facilities in states that permit the possession, sale and use of cannabis, certain activities of our business, including the possession of cannabis for processing and the sale of cannabis concentrates, will be in violation of federal law. Although state-licensed businesses engaged in such activities are currently proceeding largely free from federal prosecution and recently-enacted federal spending legislation prohibits the Department of Justice from using federal funds to prevent states from implementing their own marijuana laws, changes in congress or in the executive administration, including presidential elections, could result in changes to current federal enforcement policies regarding cannabis-related activities which are legal under certain state laws. Therefore, by operating the business, we will face the possibility of civil and criminal sanctions.

Additionally, certain states in which we seek to operate may prohibit non-resident companies from conducting business directly in the state. In such states, we will seek to enter into a collaborative arrangement with a local entity holding the necessary licensure, whereby we will agree to lease our facilities, equipment and employees to the licensed entity in exchange for a fee. Such an arrangement may be difficult to secure and/or expensive to maintain, as we will be reliant on the licensee to maintain its license in order to continue operations. Further, various state and local licensure application and approval processes may require significant time and expense, and, upon becoming authorized to do business in a state, it may be difficult or expensive for us to comply with the oft-changing laws, regulations and licensure requirements of each state and municipality where we are doing business.

We will need to obtain applicable state licenses in each state in which we will operate processing facilities. License requirements and procedures vary from state to state. The initial state in which we plan to operate is Colorado. Subsequently, we will likely seek to operate in Nevada and Washington.

Employees

We currently have two employees, Jeffrey Binder, who serves as the Chairman, President and Chief Executive Officer of the Company, and Alan Bonsett, who was appointed Chief Operating Officer of the Company effective August 15, 2015. We plan to hire a Chief Financial Officer, administrative staff, a lab manager and a consultant, for a total of approximately six employees. In addition, each processing facility will require six to eight employees, depending upon the size of the facility.

Properties

Our principal offices are located at 11767 South Dixie Highway, Suite 115, Miami, Florida 33156. We currently maintain an administrative office at 3355 SW 59th Avenue, Miami, Florida 33155. We will lease properties in the states in which we conduct our operations as we open processing facilities.

Item 1A. Risk Factors.

Our business faces certain risks. The risks described below may not be the only risks we face. Additional risks that we do not yet know of or that we currently think are immaterial may also impair our business. If any of the events or circumstances described as risks below or elsewhere in this report actually occurs, our business, results of operations or financial condition could be materially and adversely affected.

Risks Related to the Marijuana Industry

Because the use, sale or possession of marijuana is illegal under federal law, the Company and its officers and employees could be subject to criminal and civil sanctions.

The U.S. Government classifies marijuana as a Schedule I controlled substance, meaning marijuana is an illegal substance under federal law and its prescription, use, sale or possession is a violation thereof. Although 29 states and the District of Columbia allow the use of medical marijuana, eight states and the District of Columbia have legalized marijuana for adult recreational use, and recently-enacted federal spending legislation prohibits the Department of Justice from using federal funds to prevent states from implementing their own marijuana laws, the United States Supreme Court has ruled that federal laws criminalizing the use of marijuana pre-empt state laws. Thus, even if we limit our business to marijuana-friendly states, by possessing, distributing or even aiding others in distributing marijuana or marijuana-based products such as cannabinoid oils, the Company, its officers, directors and employees may face the prospect of criminal and/or civil sanctions for engaging in activities in violation of federal law and the Company could be at risk of civil and/or criminal forfeiture actions against its assets and operations for such violations. As our business plan depends upon the possession, sale, and use of marijuana and certain cannabinoid extracts, such sanctions or forfeiture actions would be debilitating to the business of the Company and would have a material adverse effect on our operations.

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Changes in federal law enforcement policy concerning federal marijuana laws could force a suspension or termination of our operations.

The commercial production, processing, distribution and sale of marijuana within the various states of the United States that have legalized these activities for medical and/or recreational purposes is currently proceeding largely free from federal investigation and prosecution as the result of a number of formal written statements issued by the United States Department of Justice deferring federal law enforcement action on these activities to state and local laws and law enforcement under certain circumstances and federal spending legislation prohibiting the Department of Justice from using federal funds to prevent states from implementing their own marijuana laws. The statements issued by the Department of Justice are, however, only guidelines provided to federal law enforcement agencies in setting priorities for the investigation and prosecution of violations of federal laws criminalizing marijuana and the effects of the federal spending legislation are not yet apparent.

Further, major changes in the executive administration, including the election of President Trump, could result in changes to, or even the withdrawal or reversal of, current federal law enforcement policy concerning the investigation and prosecution of activities involving marijuana including those which are legal under certain state laws. Likewise, there are no guarantees that legislation enacted in subsequent years will contain similar marijuana-friendly provisions. In fact, the current administration has already announced its intention to reverse these positions and policies. As our business plan depends upon the possession, sale, and use of marijuana and certain cannabinoid extracts, a change or reversal of federal law enforcement policy and/or federal spending legislation concerning marijuana would be debilitating to our business as it could result in a temporary suspension or the permanent cessation of our operations.

Even in states where the sale and use of recreational or medical marijuana is permitted, we may be unable to obtain a license and may have to rely on collaborative arrangements with licensed entities.

Certain states in which we seek to operate may prohibit non-resident companies from conducting business directly in the state and/or may require certain licensure, such as a Medical Marijuana Infused Product Manufacturer License (MMIP), for us to conduct our business. In such states, we may be required to enter into a collaborative arrangement with a local entity holding the necessary MMIP license, whereby we would agree to lease our facilities and employees to the licensed entity. Securing such an arrangement may be difficult to enter into and/or expensive to maintain. Additionally, our operations would be entirely dependent on the licensed entity's ability to maintain the required licenses, and a loss of licensure by the licensed entity would have a material adverse effect on our operations.

In states where we are permitted to operate directly, licensing requirements may be difficult and/or expensive to satisfy and maintain.

In states where we are permitted to operate directly, the licensure application and approval process may require significant time and expense. Additionally, upon becoming authorized to do business in a state, it may be difficult or expensive for us to comply with the various laws, regulations and licensure requirements of each state. Compliance may also include a subjective factor that could allow a state to revoke our MMIP license even though we believed we were complying with all applicable requirements. The loss of such an MMIP license for any reason would likely result in a material adverse effect on our operations.

In states where the sale and use of recreational or medical marijuana is permitted, local ordinances and regulations may adversely affect the Company and our strategic collaborators, such as growers and dispensaries.

In addition to the federal pre-emption and state law issues mentioned above, local laws and regulations may impact the Company and our strategic collaborators, such as growers and dispensaries, in jurisdictions where marijuana is legal under state law. Ordinances and regulations related to zoning, limiting the size of growers or levying exorbitant taxes and fees on marijuana-related businesses may have a material adverse effect on business and operations.

Laws and regulations affecting the regulated marijuana industry are constantly changing and we cannot predict the impact of future regulations.

Local, state and federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations. Legal or regulatory changes in the jurisdictions in which we operate or intend to operate may require us to incur substantial costs associated with compliance or alterations to our business plan. Further, violations of these ever-changing laws and regulations, or allegations of such violations, could disrupt our business and result in a material adverse effect on our operations.

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Our ability to achieve significant financial success is dependent on additional states and local governments legalizing marijuana.

There can be no assurance that the number of states that allow the use of medical or recreational marijuana will increase and there can be no assurance that the 23 existing states that permit the medical use of marijuana will not reverse their position in the future. As our growth is dependent upon the continued legalization of marijuana for medical and recreational use, the failure of additional states and local governments to legalize marijuana would significantly curtail our growth potential.

The difficulty of the Company to obtain various insurances that are typically available to businesses may expose us to additional risk and financial liabilities.

Workers compensation, general liability, and directors and officers insurance, among other types of business-related insurance, may be more difficult and/or more expensive to secure due to our engagement in the marijuana industry. If we are forced to go without such insurance or pay a substantially higher premium than anticipated, we may be prevented from engaging in certain strategic collaborations or partnerships, our growth may be inhibited, and we may be exposed to additional risk and financial liabilities.

The Company and its clients, partners and strategic collaborators may have difficulty accessing the service of banks.

On February 14, 2014, the U.S. government issued rules allowing banks to legally provide financial services to state-licensed marijuana-related businesses. However, such guidance fell short of the explicit legal authorization that banking industry officials requested from the federal government. To date, it is unclear whether many banks have relied on the guidance and accepted marijuana-related companies as customers. If we, as well as our clients, partners and strategic collaborators, have difficulty accessing the service of banks, we may not have access to the capital necessary to maintain our operations or may be subject to the security risks of a cash business.

The market for our products is unproven.

While consumer demand for marijuana-based products is well established, consumer demand for marijuana e-cigarettes and other products utilizing cannabinoid extracts is unproven. Lack of acceptance by end users and/or the failure of distributors or customers to accept the price point of our products could have a material adverse effect on us and could prevent us from ever becoming profitable. Further, the cost of educating the market regarding marijuana e-cigarettes and other products utilizing cannabinoid extracts could prove to be unfeasible.

The medical marijuana industry faces strong opposition.

Well-funded, politically significant businesses may provide strong economic and political opposition to the medical marijuana industry and the industry could face a material threat from the pharmaceutical companies as marijuana continues to take market share from their products. Any inroads the pharmaceutical industry makes in halting or rolling back the medical marijuana movement could have a detrimental impact on the market for our products and thus on our business, operations and financial condition.

Financial Risks

CLS Labs is newly formed and has minimal operations.

CLS Labs was formed on May 1, 2014 and it has not yet generated revenues. Accordingly, the Company's operations are subject to all of the risks inherent with start-up business enterprises. The likelihood of the Company's success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with the start-up and initial growth of a new business and the competitive and growing market in which the Company operates. The Company must be regarded as a high-risk new and unproven venture with all the unforeseen costs, expenses, problems, and difficulties to which such ventures are subject and no assurance can be given that the Company will ever have enough revenues so as to be profitable.

We may never be profitable.

We have never earned a profit. We expect to incur losses during the foreseeable future and may never become profitable. We need to obtain additional financing until we are able to earn a profit. There can be no assurance that we can implement our business plan, that we will become profitable, or that our securities will have any value. Continued losses could make it difficult to fund our operations or successfully execute our business plan.

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We may encounter start-up delays.

We cannot project the timing of our initial sales. We have already encountered delays in commencing our Colorado operations, and as a result, have put such proposed operations on hold while we seek to commence operations elsewhere. Delays in licensure, raising capital, acquiring businesses, establishing and implementing our management team, securing relationships with partners and strategic collaborators such as growers and dispensaries, building out facilities, developing products, finalizing sales and marketing structures and/or implementing other portions of CLS Labs' business plan may delay start-up in other states, which could negatively affect an investment in the Company.

We have not yet identified or hired a complete management, operations or sales and marketing team and if it takes longer than anticipated or if costs are more than anticipated to do so, we could be adversely affected.

We have not yet identified a complete management, sales or marketing team. As a result, aside from the directors and officers referenced in this annual report, stockholders will not have the benefit of knowing the identities and backgrounds of such team members in making their investment decisions. In addition, we have estimated the compensation we will have to pay to recruit a qualified management, operations and sales and marketing team and have not engaged a compensation consultant or other professional to estimate such costs, but have relied solely on the judgment of its directors. If the budgeted compensation expense is not adequate to retain a qualified management, operations, and sales and marketing team, we may need to scale back other aspects of its proposed operations or we may need to raise additional capital to commence operations. In addition, if it takes longer than anticipated to recruit a qualified team, the commencement of operations could be delayed. All of these potential issues could have a material adverse impact on the Company.

We plan to commence operations by acquiring existing businesses, but we may not be successful identifying appropriate targets, and even if we are successful in doing so, we may not be able to acquire and operate such targets profitably.

Due to the delays we have encountered in commencing operations in Colorado, we are now considering whether to commence operations by acquiring an existing business in the marijuana industry. We are pursuing several possible candidates and have not yet agreed upon terms for the acquisition of any candidate. Assuming we are able to do so, we will need to fund and close the acquisition, which will mean that we will need to raise additional capital. In addition, assuming we close on an acquisition target, we could encounter unknown liabilities or other risks associated with the business of which we were unaware at the time of the closing of the acquisition. All of these potential issues, if they arise, could have a material adverse effect on us.

Risks Related to Our Common Stock

We are subject to penny stock regulations and restrictions and you may have difficulty selling shares of our common stock.

Our common stock is subject to the provisions of Section 15(g) and Rule 15g-9 of the Exchange Act, commonly referred to as the "penny stock rule." Section 15(g) sets forth certain requirements for transactions in penny stock, and Rule 15g-9(d) incorporates the definition of "penny stock" that is found in Rule 3a51-1 of the Exchange Act. The SEC generally defines a penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. We are subject to the SEC's penny stock rules.

Since our common stock is deemed to be penny stock, trading in the shares of our common stock is subject to additional sales practice requirements on broker-dealers who sell penny stock to persons other than established customers and accredited investors. "Accredited investors" are persons with assets in excess of $1,000,000 (excluding the value of such person's primary residence) or annual income exceeding $200,000 or $300,000 together with their spouse. For transactions covered by these rules, broker-dealers must make a special suitability determination for the purchase of such security and must have the purchaser's written consent to the transaction prior to the purchase. Additionally, for any transaction involving a penny stock, unless exempt, the rules require the delivery, prior to the first transaction, of a risk disclosure document, prepared by the SEC, relating to the penny stock market. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements must be sent disclosing recent price information for the penny stocks held in an account and information about the limited market in penny stocks. Consequently, these rules may restrict the ability of brokers-dealers to trade and/or maintain a market in our common stock and may affect the ability of the Company's stockholders to sell their shares of common stock.

There can be no assurance that our shares of common stock will qualify for exemption from the penny stock rule. In any event, even if our common stock was exempt from the penny stock rule, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock if the SEC finds that such a restriction would be in the public interest.

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The issuance of a large number of shares of our common stock could significantly dilute existing stockholders and negatively impact the market price of our common stock.

On March 18, 2016, we (i) entered into a securities purchase agreement with Old Main Capital, LLC, whereby Old Main agreed to purchase an aggregate of up to $500,000 in subscription amount corresponding to an aggregate of up to $555,555 in principal amount of 10% original issue discount convertible promissory notes and (ii) issued Old Main an 8% convertible promissory note in the principal amount of $200,000 for Old Main's commitment to enter into an equity line transaction with us and prepare all of the related transaction documents. Subsequently, on April 18, 2016, we entered into an equity purchase agreement with Old Main providing that, upon the terms and subject to the conditions thereof, Old Main is committed to purchase, on an unconditional basis, shares of common stock at an aggregate price of up to $4,000,000 over the course of its 24-month term.

Although the 10% Notes were converted into common stock or repaid prior to May 31, 2017, pursuant to the terms of the 8% Note, upon conversion of the 8% Note, Old Main will receive one share of our common stock for the lesser of each $1.07 or 75% of the lowest VWAP in the 15 trading days ending on the trading day that is immediately prior to the conversion date, which is referred to as the "fixed conversion price." This could result in the issuance of a substantial number of shares. For example, if Old Main had converted the 8% Note on August 15, 2017, it would have received approximately 595,749 shares of our common stock, which currently would represent approximately 1.8% of our outstanding common stock following issuance. Old Main will receive additional shares of common stock if we elect to sell shares to it under the equity purchase agreement. The number of shares we will sell under the equity purchase agreement will be determined, in general, based on 80% of the actual market price. As a result, if we sell shares of common stock under the equity purchase agreement or Old Main converts the 8% Note into common stock, we will be issuing common stock at below market prices, which could cause the market price of our common stock to decline, and if such issuances are significant in number, the amount of the decline in our market price could be significant. The terms of the 8% Note also state that, absent certain exceptions, if we issue additional common stock, options or warrants at less than the "fixed conversion price," then the "fixed conversion price" with respect to the 8% Note will be reduced to such issuance price, which would result in our issuance of more shares upon conversion of such note by Old Main. In general, we are unlikely to sell shares of common stock under the equity purchase agreement or issue additional shares of our common stock at prices below the "fixed conversion price" at a time when the additional dilution to stockholders would be substantial unless we are unable to obtain capital to meet our financial obligations from other sources on better terms at such time. However, if we were to sell such shares of common stock or issue shares of common stock at a time when the market price of our common stock is substantially less than the "fixed conversion price" associated with the 8% Note, the dilution that could result from such issuances could have a material adverse impact on existing stockholders and could cause the price of our common stock to fall rapidly based on the amount of such dilution.

We will require additional capital in order to meet our liquidity and capital needs during the next year and if we are unable to borrow such funds or sell shares of our common stock at prices that equal or exceed the conversion price of the 8% Note, then the sale of our common stock at lower prices will result in the downward adjustment of the conversion price of the 8% Note, which could be substantial, and which will dilute existing stockholders.

We will require additional capital, particularly during the balance of 2017, to sustain our business, to repay our debt, including the 8% Note, which matures September 15, 2017, and to complete potential acquisitions of target companies. Because we do not expect to begin to generate revenue until we complete at least one acquisition, we will need to either borrow funds or sell equity to meet our liquidity and capital needs. If we are unable to borrow funds on acceptable terms or sell our common stock at prices equal to or greater than the conversion price of the 8% Note, then we may be forced to sell our common stock for a price per share less than the conversion price of the 8% Note. If we do so, we will trigger the anti-dilution provision in the 8% Note, which will cause the conversion price of the 8% Note to be reduced to the price at which we sell our common stock. Depending on the sale price our common stock, this could cause significant dilution to our existing stockholders.

The shares of our common stock we may issue in the future and the options we may issue in the future may have an adverse effect on the market price of our common stock and cause dilution to investors.

We may issue shares of common stock and warrants to purchase common stock pursuant to private offerings and we may issue options to purchase common stock to our executive officers pursuant to their employment agreements. The sale, or even the possibility of sale, of shares pursuant to a separate offering or to executive officers could have an adverse effect on the market price of our common stock or on our ability to obtain future financing.

Our amended and restated articles of incorporation and bylaws could discourage acquisition proposals, delay a change in control or prevent other transactions.

Provisions of our amended and restated articles of incorporation and bylaws, as well as provisions of Nevada Corporation Law, may discourage, delay or prevent a change in control of the Company or other transactions that you as a shareholder may consider favorable and may be in your best interest. The amended and restated articles of incorporation and bylaws contain provisions that: authorize the issuance of shares of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and discourage a takeover attempt; limit who may call special meetings of shareholders; and require advance notice for business to be conducted at shareholder meetings, among other anti-takeover provisions.

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Our directors have the authority to issue common and preferred shares without shareholder approval, and preferred shares can be issued with such rights, preferences, and limitations as may be determined by our board of directors. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of any holders of preferred stock that may be issued in the future. Although we authorized a series A preferred stock in 2017, we presently have no commitments or contracts to issue any shares of preferred stock. Authorized and unissued preferred stock could delay, discourage, hinder or preclude an unsolicited acquisition of our company, could make it less likely that shareholders receive a premium for their shares as a result of any such attempt, and could adversely affect the market prices of and the voting and other rights, of the holders of outstanding shares of our common stock.

We have not retained independent professionals for investors.

We have not retained any independent professionals to comment on or otherwise protect the interests of potential investors. Although we have retained our own counsel, neither such counsel nor any other independent professionals have made any examination of any factual matters herein, and potential investors should not rely on our counsel regarding any matters herein described.

We may sell additional equity securities in the future and your ownership interest in the Company may be diluted as a result of such sales.

We intend to sell additional equity securities in order to fully implement our business plan. Such sales will be made at prices determined by our board of directors based on the market value of the Company and could be made at prices less than the price of the shares of our common stock purchased by investors, in which case, such investors could experience dilution of their investment.

Our common stock is thinly traded.

Although our common stock trades on the OTCQB, there is limited trading in our common stock in the over-the-counter market. Such thinly traded, illiquid stocks are more susceptible to significant and sudden price changes than stocks that are widely followed by the investment community and that are actively traded on an exchange. Thus, we cannot assure investors that there will at any time in the future be an active trading market for our common stock. Our stock is not listed on a stock exchange and we currently do not intend to seek listing on an exchange. Even if we successfully list the common stock on a stock exchange, we nevertheless could not assure shareholders that an organized public market for our common stock would develop. Investors should purchase shares for long-term investment only and should purchase our securities if and only if they are capable of making and are seeking to make a long-term investment in the Company.

Financial Industry Regulatory Authority ("FINRA") sales practice requirements may also limit a stockholder's ability to buy and sell our common stock, which could depress the price of our common stock.

In addition to the "penny stock" rules described above, FINRA has adopted rules that require a broker-dealer to have reasonable grounds for believing that the investment is suitable for that customer before recommending an investment to a customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. Thus, the FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our shares of common stock, have an adverse effect on the market for our shares of common stock, and thereby depress our price per share of common stock.

Our securities are traded on the OTCQB, which may not provide as much liquidity for our investors as more recognized senior exchanges such as the NASDAQ Stock Market or other national or regional exchanges.

Our securities are quoted on the OTCQB Market ("the OTC Markets"). The OTC Markets are inter-dealer, over-the- counter markets that provide significantly less liquidity than the NASDAQ Stock Market or other national or regional exchanges. Securities traded on these OTC Markets are usually thinly traded, highly volatile, have fewer market makers and are not followed by analysts. The SEC's order handling rules, which apply to NASDAQ-listed securities, do not apply to securities quoted on the OTC Markets. Quotes for stocks included on the OTC Markets are not listed in newspapers. Therefore, prices for securities traded solely on the OTC Markets may be difficult to obtain and holders of our securities may be unable to resell their securities at or near their original acquisition price, or at any price.

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Our stock price may be volatile and you may not be able to sell your shares for more than what you paid.

Our stock price may be subject to significant volatility, and you may not be able to sell shares of common stock at or above the price you paid for them. The trading price of our common stock has been subject to fluctuations in the past and the market price of the common stock could continue to fluctuate in the future in response to various factors, including, but not limited to: quarterly variations in operating results; our ability to control costs and improve cash flow; announcements of innovations or new products by us or by our competitors; changes in investor perceptions; and new products or product enhancements by us or our competitors.

Old Main may sell a large number of shares, resulting in substantial diminution to the value of shares held by existing stockholders.

Pursuant to the equity purchase agreement, we are prohibited from delivering a put notice to Old Main to the extent that the issuance of shares would cause Old Main to beneficially own more than 4.99% of our then-outstanding shares of common stock. These restrictions however, do not prevent Old Main from selling shares of common stock received in connection with the Equity Line or 8% Note and then receiving additional shares of common stock in connection with a subsequent issuance. In this way, Old Main could sell more than 4.99% of the outstanding shares of common stock in a relatively short time frame while never holding more than 4.99% at any one time. As a result, existing stockholders and new investors could experience substantial diminution in the value of their shares of common stock. Additionally, we do not have the right to control the timing and amount of any sales by Old Main of the shares issued under the 8% Note or the Equity Line.

Risks Relating to Competitive Factors

We compete in an industry characterized by extensive research and development efforts and rapid technological progress.

New developments occur and are expected to continue to occur at a rapid pace in the marijuana industry, and there can be no assurance that discoveries or commercial developments by our competitors will not render some or all of our potential products obsolete or non-competitive, which could have a material adverse effect on our business, financial condition and results of operations. We expect to compete with fully integrated and well-established companies in the near- and long-term. Most of these companies have substantially greater financial, manufacturing and marketing experience and resources than us and represent substantial long-term competition. Such companies may succeed in discovering and developing products and/or extraction processes more rapidly than us and may be more successful than us in manufacturing, sales and marketing.

Acquisitions and strategic collaborations, including the Pure Harvest transaction, may never materialize or may fail.

We intend to explore a variety of acquisitions and strategic collaborations with existing marijuana growers, dispensaries and related businesses. At the current time, we have entered into a non-binding letter of intent with Pure Harvest but cannot predict what form such transaction or any future acquisition or strategic collaboration might take. We are likely to face significant competition in seeking appropriate acquisitions or strategic collaborators, and these acquisitions and strategic collaborations can be complicated and time consuming to negotiate and document. We may not be able to negotiate acquisitions and strategic collaborations, including the Pure Harvest transaction, on acceptable terms, or at all, and we are unable to predict when, if ever, we will enter into any such acquisitions or strategic collaborations due to the numerous risks and uncertainties associated with them, or whether the Pure Harvest transaction will close.

Risks Relating to Intellectual Property Protection

Our pending patent application may not be approved.

Our success depends on our ability to protect our proprietary process and methods. Although we filed a patent application regarding our extraction and conversion process, there can be no assurances that such application will result in the issuance of a patent. Further, even if a patent is issued, there can be no assurances that future patent claims will be held valid and enforceable against third-party infringement or that our methods and processes will not infringe any third-party patent or intellectual property or that such claims will afford us protection against competitors with similar technology or permit the commercialization of our products without infringing third-party patents or other intellectual property rights.

If we are unable to protect the secrecy of our proprietary process and methods, we may not be able to compete effectively or operate profitably.

Our success will depend, in large part, on our ability to protect the secrecy of our patent pending process and methods. As we hire employees, enter into strategic collaborations and bring our products to market, maintaining this secrecy will become increasingly difficult, especially if our patent application is denied or the issuance of the patent is delayed. If competitors are made aware of the aspects of our proprietary process and methods that are not protected by a patent, they may be able to duplicate them or independently develop similar or alternative technologies without infringing on our intellectual property rights.

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We may rely on trade secrets to protect our process and methods and may attempt to protect these trade secrets, in part, with confidentiality and non-disclosure agreements with our employees, consultants, partners, strategic collaborators and certain contractors, but there can be no assurance that these agreements would not be breached, that we would have adequate remedies for any breach, or that our trade secrets will not otherwise become known or be independently discovered by competitors. If our patent pending proprietary process, methods or related trade secrets become known to competitors, we may be unable to compete effectively, resulting in a material adverse effect on our business, financial condition and results of operations.

We may be subject to litigation with respect to the ownership and use of intellectual property that will be costly to defend or pursue and uncertain in its outcome.

Our success also will depend, in part, on refraining from infringing patents or otherwise violating intellectual property owned or controlled by others. Others may have filed patent applications or have received, or may obtain, issued patents in the United States or elsewhere relating to aspects of our extraction processes or methods, and they may institute litigation against us to protect their intellectual property rights. Such litigation, regardless of the merits, would be extremely expensive and detrimental to our operations. Additionally, it is uncertain whether the issuance of any third-party patents will require us to alter our products or processes, obtain licenses, or cease certain activities. If any licenses are required, there can be no assurance that we will be able to obtain any such licenses on commercially favorable terms, if at all, and if these licenses are not obtained, we might be prevented from pursuing the development and commercialization of certain of our potential products.

Other Risks

There are other unidentified risks.

The risks set forth above are not a complete list of the risks facing our potential investors. We acknowledge that there may exist significant risks yet to be recognized or encountered to which we may not be able to effectively respond. There can be no assurance that we will succeed in addressing these risks or future potential risks, and any failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Item 2. Properties.

Our principal offices are located at 11767 South Dixie Highway, Suite 115, Miami, Florida 33156. We currently maintain an administrative office at 3355 SW 59th Avenue, Miami, Florida 33155. We will lease properties in the states in which we conduct our operations as we open processing facilities.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not Applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company was initially incorporated on March 31, 2011 as Adelt Design, Inc. Effective August 21, 2013; our common stock became eligible for quotation on the OTC Bulletin Board under the symbol ADSN. On November 12, 2014, CLS Labs acquired 6,250,000 shares, or 55.6%, of the outstanding common stock of the Company from its founder, Larry Adelt. As a condition to CLS Labs' purchase of these shares, and pursuant to five stock purchase agreements each dated November 12, 2014, five people or entities unaffiliated with the Company purchased an aggregate of 4,984,376 shares of common stock in the Company from twenty-four stockholders other than Mr. Adelt. The total number of shares acquired by these five purchasers represented 44.3% of the Company's outstanding shares of common stock. On November 20, 2014, we adopted amended and restated articles of incorporation therein changing the Company's name to CLS Holdings USA, Inc. Effective December 10, 2014 we changed our stock symbol to "CLSH" to reflect the name change of the Company. Our common stock is currently eligible for quotation on the OTC Bulletin Board under the symbol "CLSH". As of August 15, 2017, we had 32,876,944 shares of common stock outstanding held by approximately twelve stockholders of record. We have no outstanding shares of preferred stock.

Dividend Policy

We have never paid any cash dividends on our capital stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. We intend to retain future earnings to fund ongoing operations and future capital requirements. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon financial condition, results of operations, capital requirements and such other factors as the board of directors deems relevant.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes as of May 31, 2017 the shares of our common stock subject to outstanding awards or available for future awards under our equity compensation plans.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in the first column)
Equity compensation plans approved by security holders	--	--	--
Equity compensation plans not approved by security holders (1)	--	--	--
Total	--	--	--

(1) Pursuant to their respective employment agreements, Jeffrey Binder and Alan Bonsett are entitled to receive annual stock options, exercisable at the fair market value of our common stock on the date of grant, in an amount equal to 2% of our annual EBITDA up to $42.5 million and 4% of our annual EBITDA in excess of $42.5 million. Michael Abrams was also entitled to receive stock options upon the same terms, but he is not entitled to any future awards pursuant to the terms of his separation from the Company effective September 1, 2015. We are currently unable to determine the number of shares that could be granted under these plans.

Item 6. Selected Financial Data.

Not applicable.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Outlook

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

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

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

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including PRH. Recently, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined when we will pursue it again. Instead, we plan to pursue other revenue producing opportunities in other states through the acquisition of cannabis and other complementary companies, including the Pure Harvest transaction. CLS Labs had not otherwise commercialized its proprietary process prior to the Merger and has not earned any revenues.

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

We had a net loss of $4,865,724 for the year ended May 31, 2017, resulting in an accumulated deficit as of May 31, 2017 of $8,991,610. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the years ended May 31, 2017 and May 31, 2016.

Revenues

The Company had no revenues for the years ended May 31, 2017 and 2016.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased $595,455, or approximately 45%, to $718,770 during the year ended May 31, 2017, compared to $1,314,225 for the year ended May 31, 2016. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, financing fees, bank charges and payroll expenses. The decrease in selling general and administrative expenses for the year ended May 31, 2017 was primarily due to a decrease in non-cash compensation and to a decrease in commitment fees associated with our credit arrangements. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

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Startup Costs

Startup costs were $141,739 for the year ended May 31, 2017, compared to $0 for the year ended May 31, 2016. Startup costs consisted of costs incurred in preparing to commence operation of our processing facility in Colorado.

Professional fees

Professional fees decreased $205,364, or approximately 21%, to $750,446 during the year ended May 31, 2017, compared to $955,810 for the year ended May 31, 2016. This decrease was due primarily to decreases in consulting and investor relations fees and legal fees associated with SEC capital raising filings during the year ended May 31, 2017 as we began to implement the Colorado Arrangement and pursued fewer capital raising opportunities. We expect professional fees to increase in future periods as our business grows.

Interest expense

Our interest expense was $2,571,171 for the year ended May 31, 2017, an increase of $2,169,150 or 540% compared to $402,021 for the year ended May 31, 2016. Interest expense consisted of $1,075 of imputed interest associated with $17,930 due to related parties, $204,363 of interest on related party debt, $91,215 of interest on third party debt, $1,160,887 of amortization of discounts on convertible notes payable to third parties, and $1,114,101 of amortization of discounts on convertible notes payable to related parties. The amortization of discounts on notes payable is attributable to the beneficial conversion feature of these notes. Interest expense increased primarily due to the restructuring of the terms of the 2016 Convertible Notes and the related party notes (pursuant to the Omnibus Loan Agreement), which resulted in writing-off the balance of the discount on the notes, and creating a new discount at the time of the restructuring.

Loss on modification of debt

During the year ended May 31, 2017, we recognized a loss on the modification of related party debt in the amount of $951,239. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, the holders of an aggregate of $2,537,750 of principal and $166,490 of accrued interest converted these amounts at the rate of $0.25 per share into an aggregate of 7,609,910 shares of our common stock. Loss on modification of debt was calculated as the difference between the market price of our common stock at the conversion date of $0.125 and the conversion price of $0.25, or $951,239.

Also during the year ended May 31, 2017, we recognized a loss on the modification of debt in the amount of $43,334. On November 28, 2016, we entered into an amendment to the 10% Notes. In exchange for amending the terms of the 10% Notes we increased the outstanding principal balance of such notes by 10%, resulting in a loss on the modification of the 10% Notes in the amount of $33,334. On March 27, 2017, we entered into an amendment to the 8% Note. In exchange for amending the terms of the 8% Note, we increased the outstanding principal balance of such note by 10%, resulting in a loss on the modification of the 8% Note in the amount of $10,000.

Change in fair value of derivative liability

During the years ended May 31, 2017 and 2016, we had outstanding convertible promissory notes that contained a conversion price reset feature that require us to value and record a derivative liability related to this provision on a quarterly basis. We revalued the derivative liability at May 31, 2017 at $95,276, which resulted in a gain of $310,975. We also revalued the derivative liability at May 31, 2016, at $418,537, which resulted in a gain of $61,757, which we included in results of operations for the year May 31, 2016. Management utilizes a lattice model to estimate the fair value of derivative liabilities.

Net loss

For the reasons above, our net loss for the year ended May 31, 2017 was $4,865,724 compared to $2,610,299 for the year ended May 31, 2016. The net loss per diluted share for the year ended May 31, 2017 was $0.23. This amount was computed based on the weighted average of 20,778,765 shares outstanding during the fiscal year. The net loss per diluted share for the year ended May 31, 2016 was $0.13. This amount was computed based on the weighted average of 20,146,260 shares outstanding during the fiscal year.

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Liquidity and Capital Resources

The following table summarizes our current total assets, liabilities and working capital at May 31, 2017 and 2016:

	May 31, 2017	May 31, 2016
Current Assets	$ 79,720	$ 94,986
Current Liabilities	$ 1,826,478	$ 1,339,444
Working Capital (Deficit)	$ (1,746,758)	$ (1,244,458)

At May 31, 2017 and May 31, 2016, we had a working capital deficit of $1,746,758 and $1,244,458, respectively. This working capital deficit occurred primarily because we have not yet commenced earning revenues. Due to the suspension of our plans to commence operations in Colorado, we cannot estimate when we will commence earning revenues. During the year ended May 31, 2017, we obtained loans from our officers and directors to cover operating expenses and expenses associated with the construction of our processing facility in Colorado. This working capital deficit will likely continue to increase until we begin earning revenues but should not be viewed as an indicator of our future performance once we commence earning revenues. We have operated at a loss since inception.

Cash flows used in operations were $1,182,305 during the year ended May 31, 2017, an increase of $30,878, or 2.7%, compared to $1,151,427 during the year ended May 31, 2016. Although our net loss for the year ended May 31, 2017 increased by $2,255,425, or 86%, from the year ended May 31, 2016, most of this increase was due to non-cash expenses, such as the amortization of debt discount of $2,274,988, and cash used in operations increased by only $30,878, or approximately 2.7% for the year.

Cash flows from used in investing activities were $35,013 for the year ended May 31, 2017, a decrease of $74,387, or 68.0%, compared to $109,400 during the year ended May 31, 2016. During the year ended May 31, 2017, we invested in construction in progress at our Colorado facility, which construction slowed as we waited for regulatory approvals. During the year ended May 31, 2016, we invested in equipment and had construction in progress at our Colorado facility.

Cash flows provided by financing activities were $1,207,384 during the year ended May 31, 2017, an increase of $67,164 or 5.9% compared to $1,140,250 during the year ended May 31, 2016. During the year ended May 31, 2017, we borrowed approximately $1,597,550 from our officers and directors. During the year ended May 31, 2016, we borrowed approximately $840,250 from our officers and directors and issued the 10% Notes to Old Main for cash.

April 2015 Note

On April 29, 2015, we issued a convertible promissory note (the "April 2015 Note") to an unaffiliated individual in the amount of $200,000. Interest accrues on the April 2015 Note at a rate of 15% per annum. On the first anniversary of the April 2015 Note, all then-accrued interest was due thereunder. Thereafter, principal together with accrued interest is due in eight (8) equal quarterly payments, in arrears, commencing on July 1, 2016. All outstanding principal and any accumulated unpaid interest thereon is due and payable on the third anniversary of note. At the holder's election, at any time prior to payment or prepayment of the April 2015 Note in full, all principal and accrued interest under the April 2015 Note may be converted in whole, but not in part, into our securities. For each dollar converted, the holder shall receive two shares of common stock and a three-year warrant to purchase 1.33 shares of common stock at $0.75 per share. During the year ended May 31, 2017, the Company repaid principal in the amount of $100,000 and interest in the amount of $53,837 on this note. The principal balance on this note was $100,000 at May 31, 2017.

Old Main Notes

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

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

On November 28, 2016, we entered into a Second Amendment to the 10% Notes issued on March 18, April 22 and May 27, 2016 (the “Second Amendment”) to amend the Agreements, as amended by the First Amendment, in certain respects. Pursuant to the Second Amendment, among other things, the 10% Notes were converted from installment notes to “balloon” notes, with all principal and interest on the 10% Notes due on September 18, 2017 and the outstanding principal balances of the 10% Notes were increased by 10%; the Fixed Conversion Prices associated with the 10% Notes were changed to variable conversion prices equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date; our ability to repay the 10% Notes with our common stock was deleted except pursuant to a voluntary conversion by Old Main; and Old Main was prohibited from selling, per trading day, an amount of our common stock in excess of the greater of $5,000 or 25% of the average number of shares of common stock sold per day for the five trading days preceding the day of sale multiplied by the average daily VWAP during the immediately preceding 5-trading day period. The Second Amendment resulted in a loss on modification of debt in the amount of $33,334.

On March 27, 2017, we entered into Amendment #3 to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016 (the “Third Amendment”) to further amend the 10% Notes, as amended by the First Amendment and Second Amendment, in certain respects. In the Third Amendment, we agreed, among other things, to prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,700 (the “Settlement Amount”). If we failed to pay the Settlement Amount on or before April 1, 2017, Old Main had the right to declare the Third Amendment null and void. On April 3, 2017, (the first business day after March 31, 2017) we paid the Settlement amount of $372,700 to Old Main.

During the twelve months ended May 31, 2017, Old Main converted an aggregate of $137,500 in principal of the 10% Notes, in eight transactions, into 1,685,981 shares of common stock.

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

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

On March 27, 2017, we entered into the Third Amendment, which, among other things, increased the outstanding amount due under the 8% Note as of March 18, 2017 by 5%. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017. At May 31, 2017, the principal balance due under the 8% note was $210,000. The Third Amendment resulted in a loss on modification of debt in the amount of $10,000.

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

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

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

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

Koretsky and Affiliate Notes

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

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

After excluding the loans from Mr. Koretsky, CLS CO 2016 and Newcan that were converted into our common stock effective as of May 31, 2017, there was a balance of $120,000 in loans that remained outstanding as of December 31, 2016. This amount consisted of the $120,000 principal balance of the Koretsky Funding Loans (which were exchanged for Newcan Convertible Note 1 on March 31, 2017). During 2017, Newcan advanced an additional $621,658 of unsecured, book entry loans prior to May 31, 2017. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 4"). The Newcan Convertible Note 4 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 4 in full, all principal and accrued interest under the Newcan Convertible Note 4 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

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Subsequent to May 31, 2017, Newcan has loaned us an aggregate additional $70,000 pursuant to the Newcan Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 5"). The Newcan Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 5 in full, all principal and accrued interest under the Newcan Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Binder Notes

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

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

All of Mr. Binder's loans that were outstanding as of December 31, 2016 were converted to common stock effective May 31, 2017, including all of his accrued deferred salary as of December 31, 2016. As of May 31, 2017, there was a balance of $149,550 in loans from Mr. Binder that remained outstanding. This amount consisted of the $72,000 principal balance of Binder Convertible Note 4, which related to advances made and salary accrued after January 1, 2017, and an additional $77,550 of unsecured, book entry loans. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, $77,500 of these loans plus accrued salary due to Mr. Binder in the amount of $37,500 were exchanged for a convertible note dated August 23, 2017 in the amount of $115,050 (the "Binder Convertible Note 5"). The Binder Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 5 in full, all principal and accrued interest under the Binder Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Subsequent to May 31, 2017, Mr. Binder has loaned us an aggregate additional $47,767 pursuant to the Binder Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans plus an additional $25,000 in accrued salary due to Mr. Binder were exchanged for a convertible note dated August 23, 2017 in the amount of $72,767 (the "Binder Convertible Note 6"). The Binder Convertible Note 6 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 6 in full, all principal and accrued interest under the Binder Convertible Note 6 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

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Omnibus Loan Amendment Agreement

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

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

CLS CO Note

On August 3, 2016, we borrowed $150,000 from CLS CO 2016, an entity affiliated with Mr. Koretsky. This note was unsecured and bore interest at the rate of 15% per annum. All interest accruing during the first year was to be added to principal. Commencing on November 1, 2017, principal was to be payable in four equal quarterly installments, together with accrued interest. At the note holder's election, at any time prior to payment or prepayment of the loan in full, all principal and accrued interest under the loan was to be converted, in whole or in part, into our securities. Upon such an election, the holder was to receive one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of this convertible note was reduced to $0.25 per share, and (ii) the requirement to issue warrants upon conversion was deleted. Also on May 31, 2017, principal and accrued interest in the amounts of $150,000 and $9,247, respectively, on the note payable to CLS CO 2016 were converted into a total of 636,988 shares of our common stock.

Over the next twelve months we will require significant additional capital to cover our projected cash flow deficits due to the repayment of the April 2015 Note, payments on the 8% Note, payments on the loans from Jeffrey Binder, Frank Koretsky, and Newcan Investment Partners, LLC, the implementation of our business plan, and the development of alternative revenue sources. Additionally, we anticipate that we will devote resources to research and development related to the refinement of our patent pending proprietary methods and processes and development of new products. We estimate research and development costs of between $50,000 and $100,000 during the next 12 months.

We currently have two employees, Jeffrey Binder, who serves as the Chairman, President and Chief Executive Officer of the Company, and Alan Bonsett, who serves as the Chief Operating Officer of the Company. In an effort to assist us conserve cash, Mr. Binder deferred all of his salary through May 31, 2016, which deferred salary totaled $250,000, and on July 20, 2016 he accepted a convertible promissory note from us in lieu of such salary. Mr. Binder also deferred all of his salary from June 1, 2016 through July 31, 2017 and on February 28, 2017, March 31, 2017 and August 23, 2017, Mr. Binder accepted promissory notes from us which include the amounts of $112,500, $37,500, and $25,000, in lieu of such salary. Mr. Binder has deferred all his salary form March 1, 2017 through the date hereof as well. During the year ended May 31, 2016, we issued to Mr. Bonsett a one-time signing bonus of 250,000 shares of restricted common stock of the Company, which became fully vested one year from the effective date of his employment agreement. We valued the shares at $327,500. During the years ended May 31, 2017 and 2016 we recognized $0 and $327,500 in share-based compensation, respectively.

We do not currently have the capital necessary to meet our liquidity needs, fund our capital requirements or implement our business plan. We intend to fund our cash flow and capital requirements during the next year from the proceeds of the equity line agreement, the sale of our debt and equity securities, by obtaining additional loans and with cash generated through operations from companies we may acquire in the future. There can be no assurance that we will be able to meet our needs, however, as we have not yet received any commitments for the purchase of our equity securities or for additional loans, and although we have entered into a non-binding letter of intent with Pure Harvest, we have not entered into any definitive agreements to acquire Pure Harvest or other companies. Because we do not know when we will re-visit commencing operations in

Colorado, there can be no assurance that PRH will ever generate sufficient cash to repay the $500,000 loan from CLS Labs Colorado or meet PRH's obligations under the Licensing Agreement or Equipment Lease. Further, due to delay we encountered with the construction of our Colorado processing facility, we have placed our proposed Colorado operations on hold and will pursue revenue opportunities in other states. We anticipate that we will incur operating losses during the next twelve months.

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Consulting Agreements

We have also utilized the services of outside investor relations consultants. Pursuant to a consulting agreement, we agreed to pay a consultant a monthly fee of $6,000 at the beginning of each month and agreed to issue the consultant 120,000 shares of restricted common stock vesting at a rate of 10,000 shares per month. During the three months ended May 31, 2015, we paid $12,000 to the consultant and 10,000 (post Reverse Split) shares vested. We terminated the consulting agreement during the year ended May 31, 2016 and issued the 60,000 shares of common stock that had vested, of which 50,000 shares with a value of $37,500 had been included in stock payable as of May 31, 2015.

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

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, 2016 and May 31, 2017, we have included 20,000 shares of common stock, valued at $23,200 in stock payable on the accompanying balance sheets. The shares were valued based on the closing market price on the grant date.

On December 29, 2015, pursuant to a consulting agreement, we agreed to issue 25,000 shares of common stock per month, valued at $21,250, to a consultant in exchange for investor relations consulting services. The consulting agreement was terminated during the first month of its term. The parties are in discussions regarding whether any shares of our common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, and May 31, 2017, we had 50,000 shares of common stock, valued at $42,500 included in stock payable on the accompanying balance sheet. The shares were valued based on the closing market price on the grant date.

In May 2017, pursuant to a consulting agreement, we agreed to issue 25,000 shares of common stock, valued at $3,250, to a consultant in exchange for strategic advisory services. These shares have not yet been issued, and the amount of $3,250 is included in stock payable on the accompanying balance sheet.

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

Going concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, have an accumulated deficit of $8,991,610 and had a working capital deficit of $1,746,758 at May 31, 2017. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to raise equity to acquire companies, support the opening of processing facilities and to finance ongoing operations. There can be no assurance, however, that we will be successful in our efforts to raise additional debt or equity capital and/or that our 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.

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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 or operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Critical Accounting Estimates

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

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

Recently Issued Accounting Standards

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. We are currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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.

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 7A. Quantitative and Qualitative Disclosure about Market Risk.

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

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Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of CLS Holdings USA, Inc.

We have audited the accompanying consolidated balance sheets of CLS Holdings USA, Inc. as of May 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended May 31, 2017. CLS Holdings USA, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CLS Holdings USA, Inc. as of May 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended May 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company suffered a net loss from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC

Houston, Texas

August 29, 2017

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CLS Holdings USA, Inc.
Consolidated Balance Sheet

	May 31, 2017	May 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 78,310	$ 88,244
Prepaid expenses	1,410	6,742
Total current assets	79,720	94,986
Security deposit	50,000	50,000
Property, plant and equipment, net of accumulated depreciation of $1,784 and $892	890	1,782
Construction in progress	-	106,726
Intangible assets, net of accumulated amortization of $828 and $396	1,330	1,762
Total assets	$ 131,940	$ 255,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 581,765	$ 432,260
Accrued compensation, related party	53,750	266,250
Due to related party	17,930	17,930
Accrued interest	20,171	41,116
Accrued interest, related party	106,022	68,148
Notes payable, related parties	699,208	-
Convertible notes payable, net of discount of $57,644 and $227,475	252,356	72,525
Convertible notes payable, related party, net of discount of $0 and $95,447	-	22,678
Derivative liability	95,276	418,537
Total current liabilities	1,826,478	1,339,444
Noncurrent liabilities		
Convertible notes payable, net of discount of $0 and $390,021	-	43,312
Convertible notes payable, related parties, net of discount of $0 and $1,018,657	192,000	230,718
Notes payable, related parties	-	72,750
Total Liabilities	2,018,478	1,686,224

Commitments and contingencies	-	-
Stockholder’s equity		
Common stock, $0.0001 par value; 250,000,000 shares authorized; 32,852,944 and 20,350,003 shares issued and outstanding at May 31, 2017 and May 31, 2016, respectively	3,286	2,035
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	7,032,836	2,627,183
Stock payable	68,950	65,700
Accumulated deficit	(8,991,610)	(4,125,886)
Total stockholder’s equity (deficit)	(1,886,538)	(1,430,968)
Total liabilities and stockholders’ equity (deficit)	$ 131,940	$ 255,256

See notes to consolidated financial statements.

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CLS Holdings USA, Inc.
Consolidated Statements of Operations

	For the Year Ended May 31, 2017	For the Year Ended May 31, 2016
Revenue	$ -	$ -
Cost of goods sold	-	-
Gross margin	-	-
Selling, general and administrative expenses	718,770	1,314,225
Startup costs	141,739	-
Professional fees	750,446	955,810
Total operating expenses	1,610,955	2,270,035
Operating loss	(1,610,955)	(2,270,035)
Other (income) expense:		
Interest expense	2,571,171	402,021
Loss on modification of related party debt	951,239	-
Loss on modification of debt	43,334	-
Change in fair value of derivative	(310,975)	(61,757)
Total other expense	3,254,769	340,264
Income (Loss) before income taxes	(4,865,724)	(2,610,299)
Income tax expense	-	-
Net income (loss)	$ (4,865,724)	$ (2,610,299)
Net income (loss) per share - basic	$ (0.23)	$ (0.13)
Net income (loss) per share - diluted	$ (0.23)	$ (0.13)
Weighted average shares outstanding - basic	20,778,785	20,146,260
Weighted average shares outstanding - diluted	20,778,785	20,146,260

See notes to consolidated financial statements.

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CLS Holdings USA, Inc.
Consolidated Statements of Stockholders' Equity

	Common Stock Amount	Common Stock Value	Additional Paid In Capital	Stock Payable	Accumulated Deficit	Total
Balance, May 31, 2015	20,000,003	$ 2,000	$ 887,614	$ 37,500	$ (1,515,587)	$ (588,473)
Stock issued for services	100,000	10	89,840	28,200	-	118,050
Share based compensation	250,000	25	327,475	-	-	327,500
Discount on notes from beneficial conversion feature	-	-	1,321,176	-	-	1,321,176
Imputed interest	-	-	1,078	-	-	1,078
Net loss	-	-	-	-	(2,610,299)	(2,610,299)
Balance, May 31, 2016	20,350,003	2,035	2,627,183	65,700	(4,125,886)	(1,430,968)
Settlement of derivative liability	-	-	612,850	-	-	612,850
Common stock issued for conversion of debt	1,685,981	169	137,331	-	-	137,500
Common stock issued for conversion of related party debt	10,816,960	1,082	2,703,158	-	-	2,704,240
Common stock payable for services	-	-	-	3,250	-	3,250
Loss on modification of related party debt	-	-	951,239	-	-	951,239
Imputed interest	-	-	1,075	-	-	1,075
Net loss	-	-	-	-	(4,865,724)	(4,865,724)
Balance, May 31, 2017	32,852,944	$ 3,286	$ 7,032,836	$ 68,950	$ (8,991,610)	$ (1,886,538)

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CLS Holdings USA, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended May 31, 2017	For the Year Ended May 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (4,865,724)	$ (2,610,299)
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	1,075	1,078
Change in fair value of derivative	(310,975)	(61,757)
Interest expense - excess of discount over principal	-	11,330
Loss on modification of debt	43,334	-
Loss on modification of debt – related party	951,239	-
Issuance of stock for services	3,250	118,050
Note issued as commitment	-	200,000
Stock-based compensation	-	327,500
Amortization of debt discounts	2,274,519	286,317
Depreciation and amortization expense	1,324	1,288
Start-up costs	141,739	-
Changes in assets and liabilities:		
Prepaid expenses	5,332	25,058
Accounts payable and accrued expenses	238,387	285,993
Accrued compensation	150,000	161,243
Due to related parties	-	(525)
Accrued interest, related party	204,364	64,811
Accrued interest	(20,169)	38,486
Net cash used in operating activities	(1,182,305)	(1,151,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire equipment	-	(2,674)
Payment for construction in progress	(35,013)	(106,726)
Net cash used in investing activities	(35,013)	(109,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party convertible notes payable	150,000	767,500
Proceeds from related party notes payable	1,447,550	72,750

Proceeds from issuance of convertible note	-	300,000
Principal payments on related party notes payable	(61,000)	-
Principal payments on notes payable	(329,166)	-
Net cash provided by financing activities	1,207,384	1,140,250
Net increase in cash and cash equivalents	(9,934)	(120,577)
Cash and cash equivalents at beginning of period	88,244	208,821
Cash and cash equivalents at end of period	$ 78,310	$ 88,244
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 53,837	$ -
Income taxes paid	**$ -**	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Convertible note issued for unpaid accrued salary	$ 362,500	$ -
Discount on notes due to derivatives	$ 600,564	$ 502,296
Discount on related party notes from beneficial conversion feature and warrants	$ -	$ 1,321,176
Related party notes payable reclassified as related party convertible notes payable	$ 849,750	$ 1,367,500
Common stock issued for conversion of related party notes payable	$ 2,704,240	$ -
Common stock issued for conversion of convertible notes payable	$ 137,500	$ -
Settlement of derivative liability	$ 612,850	

See notes to consolidated financial statements.

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CLS HOLDINGS USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BUSINESS ORGANIZATION AND NATURE OF OPERATIONS

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 (post Reverse-Split) shares of the Company's common stock were issued to CLS Labs in exchange for the 10,000,000 shares that it owned by virtue of the above-referenced purchase from Larry Adelt.

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

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

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 $8,991,610 as of May 31, 2017. Further losses are anticipated in the development of its business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months from operations, with loans and/or the sale of debt or equity securities. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 – SUMMARY OF 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 Labs, Inc. and CLS Labs Colorado, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

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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 $78,310 and $88,244 as of May 31, 2017 and 2016.

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. Computer equipment is being depreciated over a three-year period.

Concentrations of Credit Risk

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

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The Company incurred no advertising and marketing costs for the years ended May 31, 2017 and 2016.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $0 and $0 for the years ended May 31, 2017 and 2016, 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, note receivable, 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 sheet at fair value. The conversion features of certain of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative component of the convertible notes issued on March 18, 2016 (the "2016 Convertible Notes") was valued at issuance, at conversion or redemption, and at each period end. The following assumptions were used for the valuation of the derivative liability related to the 2016 Convertible Notes:

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For the year ended May 31, 2017:

- That the quoted market price of the common stock, which decreased from $0.0409 as of November 30, 2016 to $0.1250 as of May 31, 2017, would fluctuate with the Company's projected volatility;

- That the conversion price of the amended 2016 Convertible Notes would be equal to the lesser of (i) $1.07 or $0.80; or (ii) 75% of the lowest Volume Weighted Average Price ("VWAP") in the 15 consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date;

- That an event of default at a 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and that instead of a penalty, there would be an alternative conversion price;

- That the projected volatility curve from an annualized analysis for each valuation period would be based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 265% to 407% during the year ended May 31, 2017;

- That the Company would redeem the notes expiring on September 18, 2017 (with a 130% penalty), projected initially at 50% of the time and increasing monthly by 5.0% to a maximum of 75.0% (from alternative financing being available for a redemption event to occur);

- That the holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the common stock underlying the 2016 Convertible Notes was eligible for sale in compliance with securities laws (assumed at September 18, 2016) and the Company was not in default; and

- That unless an Event of Default occurred, the holder would sell, per trading day, an amount of Common Stock up to the greater of (i) $5,000 or (ii) 25% multiplied by the "Aggregate Amount," as defined in the 2016 Convertible Notes.

For the year ended May 31, 2016:

- That the quoted market price of the common stock of $1.06 – $0.88 would fluctuate with the Company's projected volatility;

- That the original conversion prices of the 2016 Convertible Notes, which are fixed at $1.07 and $0.80, or upon default/fundamental transaction at 52%, of the 20 trading day lowest VWAP, would remain in effect;

- That an event of default at a 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and that instead of a penalty, there would be an alternative conversion price;

- That the projected volatility curve from an annualized analysis for each valuation period would be based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 138% through 161% at issuance, conversion, and at May 31, 2016;

- That the Company would redeem the notes (with a 130% prepayment penalty) projected initially at 0% of the time and increasing monthly by 1.0% to a maximum of 10.0% (from alternative financing being available for a redemption event to occur); and

- That the holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the registration statement was effective (assumed after 180 days) and the Company was not in default.

Revenue Recognition

The Company applies revenue recognition provisions pursuant to ASC No. 605, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies.

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 May 31, 2017 and 2016, the Company excluded from the calculation of fully diluted shares outstanding a total of 1,180,350 and 2,658,441 shares, respectively, issuable upon the conversion of notes payable because the result would have been anti-dilutive.

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

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the year ended May 31, 2017 and 2016.

Income Taxes

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

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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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.

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 4 – PREPAID EXPENSES

The Company had prepaid expenses of $1,410 and $6,742 at May 31, 2017 and May 31, 2016, respectively, consisting of prepaid legal fees.

NOTE 5 – CONSTRUCTION IN PROGRESS

The Company had construction in progress in the amount of $0 and $106,726 at May 31, 2017 and 2016, respectively, on improvements to its leased facility in Colorado. During the year ended May 31, 2017, the Company capitalized an additional $35,013 to construction in progress at its leased facility in Colorado. Also during the year ended May 31, 2017, the Company wrote-off the amount of $141,739 of construction in progress at its leased facility in Colorado.

NOTE 6 – SECURITY DEPOSIT

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

NOTE 7 – NOTE RECEIVABLE

During the year ended May 31, 2015, the Company loaned $500,000 (the "Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"). Pursuant to the Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016, and May 31, 2016, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing in the month following the month in which PRH commences 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 is currently unable to estimate when it will commence generating revenues at the grow facility. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing after such initial payment and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on the five-year anniversary of the initial payment thereunder. In the event of default as defined in the agreements underlying the Note, all amounts under the Note shall be due and payable at once. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000. This receivable is recorded on the balance sheet as of May 31, 2017 and 2016 in the amount of $0, net of allowance in the amount of $500,000 (see note 10).

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company had accounts payable and accrued liabilities of $581,765 and $432,260 at May 31, 2017 and May 31, 2016, respectively, consisting of legal fees, consulting fees and other trade payables.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended May 31, 2017:

As of May 31, 2017, the Company owed $37,500 to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary. In July 2016, $250,000 was transferred from accrued salary to a convertible promissory note due to Mr. Binder; in February 2017, an additional $112,500 was transferred from accrued salary to a convertible promissory note due to Mr. Binder (see note 10).

As of May 31, 2017, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

As of May 31, 2017, the Company had amounts due to related parties of $17,930, representing expenses paid by officers and directors on behalf of the Company. The Company accrued interest at the rate of 6% per annum on these liabilities, and recorded interest expense on these liabilities in the amounts of $1,075 during the year ended May 31, 2017. This interest accrual was charged to additional paid-in capital.

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On May 31, 2017, the Company entered into the Omnibus Loan Amendment Agreement (the "Omnibus Loan Agreement") with Jeffrey I. Binder, Frank Koretsky, Newcan Investment Partners LLC and CLS CO 2016, LLC (collectively, the "Insiders"). See note 10. Pursuant to the Omnibus Loan Agreement, effective May 31, 2017, the following amounts of principal and accrued interest were converted to common stock of the Company:

	Principal	Accrued Interest	# Shares
Jeffrey Binder	$ 442,750	$ 19,427	(1,848,708)
Frank Koretsky	1,485,000	130,069	(6,460,276)
Newcan Investment Partners LLC	460,000	7,747	(1,870,988)
CLS CO 2016 LLC	150,000	9,247	(636,988)
Total	$ 2,537,750	$ 166,490	(10,816,960)

For the year ended May 31, 2016:

As of May 31, 2016, the Company owed $250,000 to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary.

As of May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

As of May 31, 2016, the Company had amounts due to related parties of $17,930, representing expenses paid by officers and directors on behalf of the Company. The Company accrued interest at the rate of 6% per annum on these liabilities, and recorded interest expense on these liabilities in the amounts of $1,078 during the year ended May 31, 2016. This interest accrual was charged to additional paid-in capital.

Related Party Notes Payable

The Company has convertible notes payable and notes payable outstanding to Jeffrey Binder, an officer and director, and to Frank Koretsky, a director (see note 10).

NOTE 10 – NOTES PAYABLE

Related Party Notes Payable

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

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

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The following tables summarize the Company's loan balances at May 31, 2017 and 2016:

	May 31, 2017	May 31, 2016
Note payable to Jeffrey Binder, an officer and director of the Company, for advances to fund operations (the "Binder Funding Notes"). The Binder Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Binder Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2016, Mr. Binder advanced a total of $95,250 to the Company under the Binder Funding Note 1; during the year ended May 31, 2016, $92,500 of this amount was transferred out of the Binder Funding Note 1 and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 1 and 2 below). During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $1,308 on the Binder Funding Note 1. In July 2016, the remaining principal balance of $2,750 in the Binder Funding Note 1 was transferred to a new Convertible Note payable to Mr. Binder (the "Binder Convertible Note 3"). During the twelve months ended May 31, 2017, Mr. Binder advanced a total of $145,850 to the Company under the Binder Funding Note 1. Also during the year ended May 31, 2017, Mr. Binder loaned the Company an additional $49,700; which was credited to the Binder Funding Note 1. Also during the year ended May 31, 2017, principal in the amount of $59,750 and accrued interest in the amount of $813 was transferred out of the Binder Funding Note 1 and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 3 and 4 below). Also during the year ended May 31, 2017, the Company made principal payments in the aggregate amount of $61,000 under the Binder Funding Note 1. During the year ended May 31, 2017, the Company accrued interest in the amount of $1,910 on the Binder Funding Note 1. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Binder Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of $0.25 per share.	$ 77,550	$ 2,750
Note payable to Frank Koretsky, a director of the Company, for advances to fund operations (the "Koretsky Funding Notes"). The Koretsky Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Koretsky Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, Mr. Koretsky advanced $550,000 to the Company under the Koretsky Funding Notes. Also during the twelve months ended May 31, 2017, $210,000 of principal and $1,346 of accrued interest was transferred out of the Koretsky Funding Notes and used to fund a new convertible notes payable to Mr. Koretsky (see Koretsky Convertible Note 3 below). Also during the twelve months ended May 31, 2017, principal and accrued interest in the amounts of $410,000 and $4,046, respectively, were transferred out of the Koretsky Funding Notes and contributed to the Newcan Funding Notes (see Newcan Funding Notes, below). During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $5,104 on the Koretsky Funding Notes.	-	70,000
Notes payable to Newcan Investment Partners, LLC ("Newcan"), an entity owned by Frank Koretsky, a director of the Company, for advances to fund operations (the "Newcan Funding Notes"). The Newcan Funding Notes bear interest at a rate of 10%. The Newcan Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, principal and interest in the amount of $410,000 and $4,046, respectively, were transferred from the Koretsky Funding Notes into the Newcan Funding Notes (see Koretsky Funding Notes, above). Also during the year ended May 31, 2017, Newcan advanced $791,658 to the Company under the Newcan Funding Notes. Also during the year ended May 31, 2017, principal in the amount of $460,000 and accrued interest in the amount of $7,747, respectively, were transferred from the Newcan Finding Notes and used to fund the Newcan Convertible Notes 2 and 3 (see below); also during the year ended May 31, 2017, principal and accrued interest in the amounts of $120,000 and $2,121, respectively, were transferred out of the Newcan Funding Notes in order to fund the Newcan Convertible Note 1; see below. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $13,434 on this note. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Newcan Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of $0.25 per share.	621,658	-

Total - Notes Payable, Related Parties	$ 699,208	$ 72,750

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	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Binder Convertible Note 1"). This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $6,250 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $50,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $9,599 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $1,151 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 1 was changed to $0.25 per share, and principal and accrued interest in the amounts of $50,000 and $3,872, respectively, were converted into a total of 215,488 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Binder Convertible Note 1 in the amount of $40,401 was charged to operations, and the Company accrued interest in the amount of $3,000.	-	50,000
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Binder Convertible Note 2"). During the year ended May 31, 2016, Mr. Binder made advances to the Company in the aggregate amount of $95,250 (see Binder Funding Notes); $42,500 of this amount was used to fund the Binder Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2017 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $5,313 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $37,840 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $7,263 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $773 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $42,500 and $3,583, respectively, were converted into a total of 184,332 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Binder Convertible Note 2 in the amount of $35,260 was charged to operations, and the Company accrued interest in the amount of $4,287.	-	42,500

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	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Binder Convertible Note 3"). The Binder Convertible Note 3 was funded with the conversion of $250,000 of unpaid accrued salary due to Mr. Binder and $12,750 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $262,750 and $11,972, respectively, were converted into a total of 1,098,888 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $22,742 on the Binder Convertible Note 3.	-	-
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated March 31, 2017 (the "Binder Convertible Note 4"). The Binder Convertible Note 4 was funded with the conversion of $112,500 of unpaid accrued salary due to Mr. Binder and $47,000 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of $19,938 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $0.25 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted, and principal in the amount of $87,500 was converted into a total of 350,000 shares of common stock. The remaining principal balance of $72,000 will be due in eight quarterly payments in the amount of $9,000 commencing July 1, 2018; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,666 on the Binder Convertible Note 4.	72,000	-

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	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Koretsky Convertible Note 1"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000) pursuant to note payable agreements (see Koretsky Funding Note 1). During the year ended May 31, 2016, $895,000 of this amount was used to fund the Koretsky Convertible Note 1. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $111,875 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $895,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $171,822 of this discount was charged to operations. During the twelve months ended May 31, 2016 the Company accrued interest in the amount of $20,597 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 1 was changed to $0.25 per share, and principal and accrued interest in the amounts of $895,000 and $83,089, respectively, were converted into a total of 3,912,356 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Koretsky Convertible Note 1 in the amount of $732,178 was charged to operations, and the Company accrued interest in the amount of $53,700.	-	895,000
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Koretsky Convertible Note 2"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000), pursuant to note payable agreements (see Koretsky Funding Notes). During the year ended May 31, 2016, $380,000 of this amount was used to fund the Koretsky Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2017 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $47,500 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $338,336 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $64,939 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $7,100 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $380,000 and $35,302, respectively, were converted into a total of 1,661,208 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Koretsky Convertible Note 2 in the amount of $315,265 was charged to operations, and the Company accrued interest in the amount of $38,000.		380,000

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	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Koretsky Convertible Note 3"). The Koretsky Convertible Note 3 was funded with $210,000 of advances Mr. Koretsky made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $210,000 and $11,678, respectively, were converted into a total of 886,712 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $19,021 on the Koretsky Convertible Note 3.	-	-
Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated March 31, 2017 (the "Newcan Convertible Note 1"). The Newcan Convertible Note 1 was funded with the conversion of $120,000 of advances made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of $15,000 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $0.25 per share. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,005 on the Koretsky Convertible Note 4. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted.	120,000	-
Unsecured convertible note issued to CLS CO 2016, LLC an entity affiliated with Frank Koretsky, a director of the Company, dated August 3, 2016 and due August 1, 2018 (the "CLS CO 2016 Note"). This note has a face amount of $150,000 and bears interest at the rate of 15% per annum. All interest accruing on this Note through the first anniversary of this Note shall be added to principal. Commencing on November 1, 2017, the Company shall pay the outstanding principal balance in four (4) equal quarterly installments, together with accrued interest, in arrears, until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the CLS CO 2016 Note was changed to $0.25 per share, and principal and accrued interest in the amounts of $150,000 and $9,247, respectively, were converted into a total of 636,988 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $18,555 on the CLS CO 2016 Note.	-	-

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		May 31, 2017		May 31, 2016
Unsecured convertible note issued to Newcan, dated January 10, 2017 and due January 2, 2020 (the "Newcan Convertible Note 2"). The Newcan Convertible Note 2 was funded with $410,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $51,250 will become due; subsequent principal payments will become due on the first day of each, July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Newcan Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $410,000 and $7,527, respectively, were converted into a total of 1,670,108 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $15,838 on the Newcan Convertible Note 2.		-		-
Unsecured convertible note issued to Newcan, dated January 10, 2017 and due January 2, 2020 (the "Newcan Convertible Note 3"). The Newcan Convertible Note 3 was funded with $50,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $6,250 will become due; subsequent principal payments will become due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Newcan Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $50,000 and $220, respectively, were converted into a total of 200,880 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,822 on the Newcan Convertible Note 3.		-		-
Total – Convertible Notes Payable, Related Parties	$	192,000	$	1,367,500
Less: Discount		-		(1,114,104)
Convertible Notes Payable, Related Parties, Net of Discounts	$	192,000	$	253,396
Convertible Notes Payable, Related Parties, Current Portion	$	-	$	118,125
Convertible Notes Payable, Related Parties, Long-term Portion	$	192,000	$	1,249,375
Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion	$	-	$	22,678
Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion	$	192,000	$	230,718

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	May 31, 2017	May 31, 2016
Convertible promissory note issued to an unaffiliated third party due April 29, 2018 (the "April 2015 Note"). During the twelve months ended May 31, 2015, the lender loaned the Company the amount of $200,000 pursuant to this note. The April 2015 Note bears interest at a rate of 15% per annum. On the first anniversary of this note, the all then accrued interest became due. Thereafter, the Company is required to make eight equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 until paid in full. The note and any accrued unpaid interest is convertible into common stock of the Company. For each dollar converted, the note holder shall receive two shares of common stock and one three-year warrant to purchase 1.33 shares of common stock at $0.75 per share. The Company recognized a discount of $200,000 on the April 2015 Note related to the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $66,667 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $30,082 on this note. During the year ended May 31, 2017, the Company repaid principal in the amount of $100,000 and interest in the amount of $53,837 on this note. Also during the year ended May 31, 2017, the Company charged $100,545 of the discount to operations, and accrued interest in the amount of $22,440 on the April 2015 Note.	100,000	200,000
Convertible Promissory Note payable to Old Main Capital, LLC ("Old Main") dated March 18, 2016, for the purchase of up to $555,555 in 10% Original Issue Discount Convertible Promissory Notes (the "10% Notes"). During the year ended May 31, 2016, Old Main loaned the Company the amount of $333,332 pursuant to these notes. These notes bear interest at the rate of 10% per annum. Old Main may, at its option, convert all or a portion of the notes and accrued but unpaid interest into shares of common stock at a conversion price of $0.80 per share (post Reverse-Split) (the "Fixed Conversion Price"). The Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the Fixed Conversion Price (the "Base Conversion Price"), other than certain exempt issuances. In such an instance, the Fixed Conversion Price will be lowered to match the Base Conversion Price. The shares underlying the 10% Notes are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after the registration statement is declared effective, the Company must begin to redeem 1/24th of the face amount of the notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payments may be made, at our option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $0.80 or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days immediately prior to the conversion date. The Company recognized a discount of $330,188 on the 10% Notes related to the value of the original issue discount and embedded derivative. During the twelve months ended May 31, 2016, $4,056 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $5,160 on this note. On October 6, 2016, the 10% Notes were amended to increase the interest rate to 15% (effective August 1, 2016) and subsequently amended November 28, 2016 to convert the 10% Notes from installment notes to "balloon" notes, with all principal and accrued interest due on September 18, 2017. In exchange for amending the terms of the 10% Notes, the Company increased the outstanding principal balance by 10% to $366,666; pursuant to this modification, the Company recorded a loss on modification of debt in the amount of $33,334. In addition, the Fixed Conversion Price was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date. The 10% Notes were revalued as of the November 28, 2016 amendment and the Company recognized a discount of $366,666 on the value of the embedded derivative. During the three months ended February 28, 2017, Old Main converted an aggregate of $100,000 of principal, in six transactions, into 828,173 shares of common stock. On March 27, 2017, the Company entered into a further amendment to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016, whereby the Company agreed to prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,670, consisting	-	333,332

of principal in the amount of $229,166, accrued interest in the amount of $57,504, and a prepayment penalty in the amount of $86,000. The payment to Old Main of $372,670 was made from the proceeds of loans to the Company made by Newcan and Jeffrey Binder, who are either officers and directors of the Company or affiliates of officers and directors of the Company. These loans are reflected in the Newcan Funding Notes (see above, $323,000); and the Binder Funding Note 1 (see above, $49,700). Also, during the year ended May 31, 2017, the Company accrued interest in the amount of $52,344 on the 10% notes.

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	May 31, 2017	May 31, 2016
Convertible promissory note payable to Old Main dated March 18, 2016 and bearing interest at a rate of 8% (the "8% Note"). The 8% Note was issued for Old Main's commitment to enter into an equity line transaction with the Company and prepare all of the related transaction documents. Old Main may, at its option, convert all or a portion of the note and accrued but unpaid interest into shares of common stock at a conversion price of $1.07 per share (post Reverse-Split) (the "8% Fixed Conversion Price"). The 8% Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the 8% Fixed Conversion Price (the "8% Base Conversion Price"), other than certain exempt issuances. In such an instance, the 8% Fixed Conversion Price will be lowered to match the 8% Base Conversion Price. The shares underlying the 8% Note are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after this registration statement becomes effective, the Company must begin to redeem 1/6th of the face amount of the note and any accrued but unpaid interest on a monthly basis. Such amortization payment may be made, at its option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $1.07 (post Reverse-Split) or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. The Company recognized a discount of $172,108 on the value of the embedded derivative. On November 28, 2016, the 8% Note was amended converting the note from an installment note to a "balloon" note, with all principal and accrued interest due on March 18, 2017. In addition, the Fixed Conversion Price was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date. The November 28, 2016 amendment required an extinguishment analysis of the 8% Note resulting in gain on extinguishment of debt in the amount of $81,496 for the nine months ended February 28, 2017. The gain on extinguishment of debt was included in additional paid-in capital at February 28, 2017. The 8% Note was revalued as of the November 28, 2016 amendment and the Company recognized a discount of $169,476 on the value of the embedded derivative. At February 28, 2017 and May 31, 2016, the amount of discount remaining on these notes was $118,998 and $163,586, respectively. On March 27, 2017, the Company entered into a further amendment to the convertible promissory notes issued on March 18, April 22 and May 27, 2016, whereby the Company agreed to increase the outstanding amount due under the 8% Note as of March 18, 2017 by 5%, or $10,000. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017. Also during the year ended May 31, 2017, the Company accrued interest in the amount of $17,207 on the 8% Note.	210,000	200,000
Total - Convertible Notes Payable	$ 310,000	$ 733,332
Less: Discount	(57,644)	(617,495)
Convertible Notes Payable, Net of Discounts	$ 252,356	$ 115,837
Total - Convertible Notes Payable, Current Portion	$ 310,000	$ 300,000
Total - Convertible Notes Payable, Long-term Portion	$ -	$ 433,332
Total - Convertible Notes Payable, Net of Discounts, Current Portion	$ 252,356	$ 72,525
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	$ -	$ 43,312
Discounts on notes payable amortized to interest expense:	$ 252,356	$ 286,317

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Beneficial Conversion Features

The 8% Note and the 10% Notes contain conversion features that create derivative liabilities. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative components of the 8% and 10% Convertible Notes were valued at issuance, at conversion, at restructure, and at period end. See note 3 and note 10.

Certain other of the Company's notes payable contain beneficial conversion features which are not derivatives, but which require valuation in order to determine the discount to the related note payable. The value of these conversion features is calculated using the Black-Scholes valuation model. The following table illustrates certain key information regarding the conversion option valuation assumptions under the Black-Scholes valuation model at May 31, 2016 and 2015:

	May 31,	
	2017	**2016**
Volatility	64% to 138%	89% to 107%
Dividends	-	-
Risk-free interest rates	0.86% to 1.19%	1.18% to 0.91%
Term (years)	1.25 to 3	3

NOTE 11 – STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 250,000,000 shares of common stock, par value $0.0001 per share and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 32,852,944 and 20,350,003 shares of common stock issued and outstanding as of May 31, 2017 and 2016, respectively.

The Company recorded imputed interest of $1,075 and $1,078 during the year ended May 31, 2017 and 2016 on related party payables due to a director and officer of the Company.

On August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Mr. Bonsett was entitled to a one-time signing bonus of 250,000 shares of restricted common stock of the Company, which became fully vested one year from the effective date of the agreement. The shares were issued on January 19, 2016. The Company valued the shares at $327,500 based on the stock price at August 3, 2015. During the year ended May 31, 2016, the Company recognized $327,500 in share based compensation.

On April 18, 2016, the Company entered into an equity purchase agreement (the "Equity Purchase Agreement") with Old Main providing that, upon the terms and subject to the conditions thereof, Old Main is committed to purchase, on an unconditional basis, shares of common stock (the "Commitment Shares") at an aggregate price of up to $4,000,000 over the course of a 24-month term (the "Equity Line"). From time to time over the 24-month term of the Equity Purchase Agreement, the Company may, in its sole discretion, provide Old Main with a put notice (each, a "Put Notice"), to purchase a specified number of Commitment Shares (each, the "Put Amount Requested"). The actual amount of proceeds the Company receives pursuant to each Put Notice (each, the "Put Amount") will be determined by multiplying the Put Amount Requested by the applicable purchase price. The purchase price of each Commitment Share will equal 80% of the market price of the Company's common stock during the five consecutive trading days immediately following the clearing date associated with the applicable Put Notice.

On November 28, 2016, the Company amended the 2016 Convertible Notes, which was treated as an extinguishment and reissuance of the debt. As a result, the Company recorded a gain on the settlement of derivative liability in the amount of $254,114, which was included in additional paid-in-capital at May 31, 2017.

Common Stock

Year ended May 31, 2017:

From December 21, 2016, through March 14, 2017, Old Main, holder of the 2016 Convertible Notes, converted an aggregate of $137,500 of principal, in eight transactions, into 1,685,981 shares of common stock. As a result of the conversions, the Company charged the amount $143,325 to additional paid-in capital related to settlement of derivative liability. See note 10.

In May 2017, the Company agreed to issue 25,000 shares of common stock with a fair value of $3,250 to a service provider. At May 31, 2017, these shares had not been issued, and the amount of $3,250 is included in stock payable on the Company's balance sheet.

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In March 2017, the Company entered into a modification agreement regarding the 8% Promissory Note due to Old Main, and the derivative liability in the amount of $70,143 related to the conversion feature of this note was charged to additional paid-in capital. See note 10.

In May 2017, the Company paid the 10% Notes due to Old Main, and the derivative liability in the amount of $145,268 related to the conversion feature of this note was charged to additional paid-in capital. See note 10.

On May 31, 2017, pursuant to the Omnibus Loan Agreement, four related party convertible noteholders converted principal and interest in the aggregate amount of $2,537,750 and $166,490, respectively, into a total of 10,816,960 shares of common stock. As a result of the conversions, the Company charged the amount $951,239 to loss on modification of debt. See note 10.

Year ended May 31, 2016:

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

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

On October 15, 2015, pursuant to a consulting agreement, the Company 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company had 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 of the common stock on the grant date.

On December 29, 2015, pursuant to a consulting agreement commencing on January 4, 2016, the Company agreed to issue 25,000 shares of common stock per month, valued at $21,250 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company 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 of the common stock on the grant date.

On January 19, 2016, the Company issued 250,000 shares of restricted common stock with a fair value of $327,500 to its Chief Operating Officer as a signing bonus. The shares vested on August 1, 2016.

NOTE 12 – INCOME TAXES

The Company accounts for income taxes under FASB ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

As of May 31, 2017 and 2016, the Company had incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets.

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The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	May 31, 2017	May 31, 2016
Federal and state statutory rate	34%	34%
Net operating loss carry forwards	1,386,438	787,513
Valuation allowance for deferred tax assets	(1,386,438)	(787,513)
Net deferred tax assets	-	-

As of May 31, 2017 and 2016, the Company had net operating loss carry forwards of approximately $1,386,438 and $787,513 available to offset future taxable income. The net operating loss carry forwards, if not utilized, will begin to expire in 2037.

Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at May 31, 2017 and 2016. The Company had no uncertain tax positions as of May 31, 2017.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease Arrangement

The Company, through CLS Labs Colorado, leases 42,392 square feet of warehouse and office space (the "Leased Space") in a building located on 1.92 acres in Denver Colorado. CLS Labs Colorado subleases the Leased Space to Picture Rock Holdings, LLC as part of an arrangement whereby Picture Rock Holdings, LLC and its affiliate will conduct certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, as permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. Total expense for the lease was $177,844 for the years ended May 31, 2017 and 2016.

Future annual minimum base rental payments for the lease as of May 31, 2017 are approximately as follows:

For the 12 months ended May 31,	
2018	177,845
2019	177,845
2020	177,845
2021	148,202
Thereafter	-
Total	681,737

Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman, President and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. On April 28, 2015, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the

Merger, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of $150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. My Binder deferred all of the salary payable to him under his employment agreement through May 31, 2016. On July 20, 2016, the Company issued Mr. Binder a convertible note in exchange for $250,000 in deferred salary, among other amounts owed to Mr. Binder by the Company; on February 28, 2017, the Company issued Mr. Binder an additional convertible note in exchange for $112,500 in deferred salary. As of May 31, 2017 and 2016, the Company had accrued compensation due to Mr. Binder in the amount of $37,500 and $250,000.

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Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett is received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement, as discussed in Note 10.

At May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company prior to his September 1, 2015 termination, in the amount of $16,290.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the Company's derivative financial liabilities that are recorded at fair value on a recurring basis at May 31, 2017 and 2016.

	May 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ 95,276	$ 95,276

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

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

	Derivative Liability
Liabilities Measured at Fair Value	
Balance as of May 31, 2015	$ -
Issuances	480,294
Revaluation gain	(61,757)
Balance as of May 31, 2016	$ 418,537
Issuances	600,564
Convert or Redeem	(612,850)

Revaluation gain		(310,975)
Balance as of May 31, 2017	$	95,276

NOTE 15 – SUBSEQUENT EVENTS

On July 6, 2017, the Company entered into Amendment #4 to Convertible Promissory Note Issued on March 18, 2016 (the “Fourth Amendment”) to further amend the terms of the 8% Note, which is the only Note that remains outstanding. Pursuant to the Fourth Amendment, the maturity date of the 8% Note was extended to July 15, 2017 and the outstanding balance of the 8% Note as of June 30, 2017 was increased by multiplying it by 1.075. The Fourth Amendment was effective on June 30, 2017.

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In order to raise additional capital, make provision for the repayment of certain convertible promissory notes and acquire certain operating companies in synergistic businesses, on June 29, 2017, the Company entered into a non-binding letter of intent (the “LOI”) with Pure Harvest Cannabis Producers, Inc. (“Pure Harvest”) to (i) arrange for the sale of that certain 8% convertible promissory note in the original principal amount of $200,000 made by the Corporation in favor of Old Main Capital, LLC (the “Old Main Note”) by Old Main Capital, LLC; (ii) arrange for the sale of that certain 15% convertible promissory note in the original principal amount of $200,000 made by the Corporation in favor of Dr. Trocki (the “Trocki Note”) by Dr. Trocki; (iii) arrange for the sale of certain unrestricted shares of common stock of the Company by certain unaffiliated shareholders to certain persons named by Pure Harvest; (iv) arrange for the sale of certain restricted shares of common stock by the Company by certain affiliated shareholders to certain persons named by Pure Harvest; (v) arrange for the assumption of certain debt of the Corporation by certain of the Company’s affiliates; (vi) structure certain private securities offerings of the Company’s securities; and (vii) acquire certain assets of Pure Harvest. As the first step of implementing the LOI, the Company authorized and designated 650,000 shares of its preferred stock as “Series A Preferred Stock” with the intention of requiring the purchasers of the Old Main Note and the Trocki Note to convert such convertible debt into preferred stock. No preferred stock has been issued to date.

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

On August 23, 2017, Jeffrey Binder exchanged $115,050 and $72,767 in principal on Binder Funding Notes for the Binder Convertible Note 5 and the Binder Convertible Note 6. On the same date, Newcan Investment Partners, LLC exchanged $621,658 and $70,000 in principal on Newcan Funding Notes for Newcan Convertible Note 4 and Newcan Convertible Note 5. These notes bear interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight equal principal payments will become due; subsequent principal payments will become due on the first day of each April, July, October and January until paid in full. These notes and accrued interest under these notes may be converted, in whole or in part, into one share of common stock for each $0.25 converted.

On August 23, 2017, the Company entered into Amendment #5 to Convertible Promissory Note Issued on March 18, 2016 (the "Fifth Amendment") to further amend the terms of the 8% Note. Pursuant to the Fifth Amendment, the maturity of the 8% Note was extended to September 15, 2017. The outstanding balance remained unchanged. The Fifth Amendment was effective on July 15, 2017.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Upon CLS Labs' acquisition of a majority interest in the Company on November 12, 2014, Jeffrey I. Binder, the Chairman, President and Chief Executive Officer of CLS Labs, was appointed Chairman, President and Chief Executive Officer of the Company, and Michael Abrams, the former Chief Operating Officer of CLS Labs, was appointed the Chief Operating Officer of the Company. Effective August 15, 2015, Mr. Abrams resigned as Chief Operating Officer of the Company and was replaced by Alan Bonsett. Mr. Binder and Mr. Bonsett remain the only two employees of the Company. Mr. Binder and Frank Koretsky are the directors of the Company.

Below are the names of and certain information, including business experience during the past five years, regarding our current executive officers and directors:

Name	Age	Title	Term Expires
Jeffrey Binder	70	Chairman, President, Chief Executive Officer and Director	2017
Frank Koretsky	54	Director	2016
Alan Bonsett	43	Chief Operating Officer	--

Jeffrey Binder, Chairman, President, Chief Executive Officer and Director

Mr. Binder was one of the individuals who founded CLS Labs in 2014 and he has served as its Chairman, President, Chief Executive Officer and a director since its inception. Upon CLS Labs' acquiring control of the Company on November 12, 2014, Mr. Binder was appointed Chairman, President, Chief Executive Officer and a director of the Company. He continues to serve in these roles. Since 2008, Mr. Binder has served as founder, Chairman and President of Power 3 Network, Inc., a company that develops websites and back offices for home-based businesses. In 2003, Mr. Binder founded Infinity 8, Inc., a software development company, where he served as its Chairman, Treasurer and a director until 2011. In addition to his employment history, Mr. Binder has invested in and mentored several start-up and mid-stage companies through his private holding company, JeMJ Financial Services, Inc., which he formed in 1988 and for which he serves as Chairman, President and a director. Through JeMJ, Mr. Binder invested in GGL Industries, Inc., a private holding company that owned Sterling Yacht and Classic Motor Carriages, as well as various other companies, and had extensive real estate holdings. Mr. Binder received his Juris Doctorate from the National Law Center, George Washington University, in 1971, where he received the honor of membership in the Order of the Coif. He also served as a legislative assistant to Adlai Stevenson II, a United States Senator for Illinois, and practiced Law at Sonnenschein Nath & Rosenthal, LLP, Chicago, Illinois for five years.

Frank Koretsky, Director

Mr. Koretsky is a founder and has served as a director of CLS Labs since its formation in 2014. Upon consummation of the Merger, Mr. Koretsky was also appointed a director of the Company. It is expected that Mr. Koretsky will serve as a consultant to the Company in the future. Since 1995, Mr. Koretsky has served as the President of East Coast News Corp., a leading company in the adult product distribution industry. As a result of Mr. Koretsky's business experience, he brings a strong background in management, marketing and branding to the Company.

Alan Bonsett, Chief Operating Officer

Mr. Bonsett joined the Company on August 1, 2015 and was appointed Chief Operating Officer effective August 15, 2015. Mr. Bonsett has extensive experience in the cannabis industry, spanning production and processing facility buildouts, business development and strategic planning, licensing and compliance, and supply chain management from grower to processing center to dispensary. From December 2014 until July 2015, Mr. Bonsett was a principal of Picture Rock Holdings, LLC, a marijuana extraction company, and President of Picture Rock Management, Inc., its management company. From February 2014 until July 2015, Mr. Bonsett served as Chief Executive Officer of Redwood Investment Partners, LLC, a wholesale medical and recreational marijuana grow facility in Denver, Colorado. From March 2014 until July 2015, Mr. Bonsett was a member and head of sales and marketing of Herbal Medical Institute, LLC, a medically-infused marijuana production kitchen and wholesaler. From November 2014 until July 2015, Mr. Bonsett served as Chief Operating Officer of NoBo Investment Partners, LLC, a marijuana consulting firm. From November 2014 until April 2015, Mr. Bonsett was a consultant for Personalized Organic Treatments, LLC, a medical marijuana dispensary and grow facility. From June 2013 until October 2014, Mr. Bonsett served as co-owner and general manager of Colorado Product Services, LLC d/b/a Doctor’s Garden, a multi-location medical marijuana dispensary and grow facility. From December 2012 until May 2013, Mr. Bonsett was employed as head of the wholesale department of Holly Medicinal Services, LLC d/b/a The Clinic, a multi-location medical marijuana dispensary and grow facility. Mr. Bonsett, who graduated from Arizona State University with a bachelor’s degree in business, was self-employed as a real estate project manager from December 2009 until November 2012 and spent over twelve years as a mortgage and real estate professional prior to his involvement in the marijuana industry.

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Our amended and restated articles of incorporation provide that the board of directors be divided into three classes with each class serving a staggered three-year term. The term of Class I expires at our 2018 annual meeting, the term of Class II expired at our 2016 annual meeting, and the term of Class III expires at our 2017 annual meeting. Frank Koretsky serves as the sole member of Class II and Jeffrey Binder serves as the sole member of Class III. Class I is currently unrepresented. We did not hold a 2015 or 2016 annual meeting due to our present desire to conserve cash and focus on financing the Company. As a result, Mr. Koretsky is continuing to serve as our Class II director since his successor has not been elected, and the Class I director may be elected by our existing directors once we identify a suitable candidate. Executive officers are appointed by the board of directors and serve at its pleasure. None of our directors are independent, as that term is defined by Nasdaq rules. None of our directors is a financial expert, as that term is defined by the SEC.

We are not currently listed on any national securities exchange or quoted on an inter-dealer quotation system that has a requirement that certain of the members of the board of directors be independent. In evaluating the independence of its members and the composition of its planned committees, the board of directors utilizes the definition of "independence" developed by the Nasdaq Stock Market and in SEC rules, including the rules relating to the independence standards of audit committee members and the non-employee director definition of Rule 16b-3 promulgated under the Exchange Act. The board of directors has determined that none of its current members is independent.

The board of directors expects to continue to evaluate whether and to what extent the members of the board of directors are independent. The Company intends to appoint persons to the board of directors who will meet the corporate governance requirements imposed by a national securities exchange. Therefore, we expect that in the future a majority of our directors will be independent directors of which at least one director will qualify as an "audit committee financial expert," within the meaning of SEC rules.

Additionally, the board of directors expects to appoint an audit committee, governance committee and compensation committee and to adopt charters relative to each such committee in the future.

Board of Directors and Corporate Governance

Upon the closing of the Merger, Frank Koretsky was appointed to our board of directors. The board currently consists of two (2) members and is divided into three classes with each class of directors serving a staggered three-year term. Frank Koretsky's term as a director expired in 2016 but he continues to hold office until his successor is elected. Jeffrey Binder holds office until our 2017 annual meeting.

Board Independence and Committees

We are not currently listed on any national securities exchange or quoted on an inter-dealer quotation system that has a requirement that certain of the members of the board of directors be independent. In evaluating the independence of its members and the composition of its planned committees, the board of directors utilizes the definition of "independence" developed by the Nasdaq Stock Market and in SEC rules, including the rules relating to the independence standards in audit committee members and the non-employee director definition of Rule 16b-3 promulgated under the Exchange Act. The board of directors has determined that none of its current members is independent.

The board of directors expects to continue to evaluate whether and to what extent the members of the board of directors are independent. The Company intends to appoint persons to the board of directors who will meet the corporate governance requirements imposed by a national securities exchange. Therefore, the Company expects that in the future a majority of our directors will be independent directors of which at least one director will qualify as an "audit committee financial expert," within the meaning of SEC rules.

Additionally, the board of directors expects to appoint an audit committee, governance committee and compensation committee and to adopt charters relative to each such committee in the future.

Code of Ethics

As we are not currently registered under the Exchange Act, we are not required to have adopted a written code of ethics. Nevertheless, the board of directors expects to adopt a code of ethics that is reasonably designed to deter wrongdoing and promote honest and ethical conduct; provide full, fair, accurate, timely and understandable disclosure in public reports; comply with applicable laws; ensure prompt internal reporting of code violations; and provide accountability for adherence to the code.

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Section 16(a) Beneficial Ownership Reporting Compliance

During the year ended May 31, 2017, Mr. Jeffrey I. Binder, one of our officers and directors, failed to file one Form 4 on a timely basis. This Form 4 reflected two transaction in our securities.

During the year ended May 31, 2017, Mr. Frank Koretsky, one of our directors, failed to file one Form 4 on a timely basis. This Form 4 reflected three transactions in our securities.

Item 11. Executive Compensation.

As a smaller reporting company, we are required to disclose the executive compensation of our named executive officers, which consist of the following individuals, for the fiscal years ended May 31, 2016 and May 31, 2017, respectively: (i) any individual serving as our principal executive officer or acting in a similar capacity during such fiscal years; (ii) the two other most highly compensated executive officers of the Company serving as executive officers at the end of the most recently completed fiscal year; and (iii) any additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of the most recently completed fiscal year.

Summary Compensation Table

The following table discloses compensation paid or to be paid to our named executive officers for the fiscal years ended May 31, 2016 and May 31, 2017, respectively.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus ($)	Stock Awards ($)	Non-Equity Incentive Plan Compensation ($)	Non-Qualified Deferred Compensation ($)	All Other Compensation ($)	Total ($)
Jeffrey Binder, Chairman, President and Chief	2017	150,000	—	—	—	—	—	150,000
Executive Officer(1)	2016	150,000	—	—	—	—	—	150,000
Alan Bonsett,	2017	150,000					9,000(3)	159,000
Chief Operating Officer(2)	2016	118,750	—	327,500(4)	—	—	---	446,250

1 Although Mr. Binder's employment agreement provides for an annual salary of $150,000 per annum; to date, he has deferred all compensation from the Company, including the referenced salary, which has been converted to convertible promissory notes due to him. At present, Mr. Binder also serves as our Chief Financial Officer.

2 Mr. Bonsett and the Company entered into an employment agreement effective August 1, 2015 and he was appointed Chief Operating Officer of the Company effective August 15, 2015.

3 Amount represents auto allowance paid to Mr. Bonsett.

4 Amount represents shares of restricted stock issued to Mr. Bonsett, which vested in August 2016.

Narrative Disclosure to Summary Compensation Table

We currently do not have a stock option plan or any other incentive plan that provides for compensation intending to serve as an incentive for performance except as provided in the employment agreements of Mr. Binder and Mr. Bonsett as described below.

The following is a narrative discussion of our officers' employment agreements that we believe is necessary to understand the information disclosed in the foregoing Summary Compensation Table with respect to fiscal years 2016 and 2017.

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Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman, President and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million.

On April 28, 2015, Mr. Binder, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the Merger, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of $150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. Mr. Binder deferred all of the $250,000 in salary payable to him under his employment agreement through May 31, 2016. On July 20, 2016 and March 31, 2017, we issued Mr. Binder convertible promissory notes in exchange for $250,000 and $112,500 in deferred salary, respectively, among other amounts owed to Mr. Binder by the Company.

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett received a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement.

Outstanding Equity Awards at May 31, 2017

None of our named executive officers had any outstanding stock options or unvested equity awards as of May 31, 2017.

Director Compensation

To date, we have not paid our directors any compensation for services on our board of directors. Our directors are, however, entitled to receive compensation as determined by the board of directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table sets forth information with respect to the beneficial ownership of our common stock as of August 15, 2017 by (i) each stockholder known by us to be the beneficial owner of more than 5% of our common stock, (ii) each of our directors and executive officers, and (iii) all of our directors and executive officers as a group. Our only class of voting securities is our common stock. To our knowledge, none of the shares listed below are held under a voting trust or similar agreement. To our knowledge, there are no pending arrangements, including any pledges by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company. There were 32,876,944 shares of common stock issued and outstanding on August 15, 2017.

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Unless otherwise indicated in the following table, the address for each person named in the table is c/o CLS Holdings USA, Inc., 11767 S. Dixie Hwy, Suite 115, Miami, FL 33156. Pursuant to SEC rules, we have included shares that the person has the right to acquire within 60 days from August 15, 2017.

Name and Address of Beneficial Owner(1)	**Amount and Nature of Beneficial Ownership**		**Percentage of Class**
Jeffrey I. Binder	7,734,908	(2)	22.9%
Raymond Keller	5,000,000		15.2%
Frank Koretsky	16,920,252	(3)	47.2%
Newcan Investment Partners, LLC (4)	4,822,988		13.5%
Alan Bonsett	250,000		0.8%
All directors and executive officers as a group (3 persons) (5)	29,905,160	(5)	81.5%

1 Except as otherwise indicated, to our knowledge, the persons named in this table have sole voting, investment and dispositive power with respect to all shares of common stock listed.

2 Includes 6,848,708 shares of common stock owned by Mr. Binder, and 886,200 shares of common stock issuable upon the conversion of a convertible promissory note and demand convertible promissory notes issued to Mr. Binder, which notes are currently convertible. Excludes shares issuable upon the conversion of interest accrued and accruing under the outstanding convertible promissory note and demand convertible notes issued to Mr. Binder.

3 Includes 12,097,264 shares of common stock owned by Mr. Koretsky and 1,870,988 shares of common stock owned by Newcan Investment Partners, LLC, an entity that is wholly owned by Mr. Koretsky, and 2,952,000 shares of common stock issuable upon the conversion of a convertible promissory note and demand convertible notes issued to Newcan, which notes are currently convertible. Excludes shares issuable upon the conversion of interest accrued and accruing on the outstanding convertible promissory note and demand convertible notes issued to Newcan.

4 Newcan Investment Partners, LLC is wholly owned by Mr. Koretsky. Includes 1,870,988 shares of common stock owned by Newcan Investment Partners, LLC, and 2,952,000 shares issuable upon the conversion of a convertible promissory note and demand convertible notes issued to Newcan, which notes are currently convertible. Excludes shares of common stock that may be issued upon the conversion of interest accrued or accruing on the outstanding convertible promissory note and demand convertible notes issued to Newcan.

5 Includes (a) 24,195,972 shares of common stock currently held by officers and directors; (b) 886,200 shares of common stock issuable upon the conversion of a convertible promissory note and demand convertible promissory notes held by officers and directors, which notes are currently convertible; (c) 1,870,988 shares of common stock owned by Newcan Investment Partners, LLC, an entity wholly owned by Mr. Koretsky; and (d) 2,952,000 shares of common stock issuable upon the conversion of a convertible promissory note and demand convertible notes held by Newcan Investment Partners, LLC, which notes are currently convertible. Excludes shares issuable upon the conversion of interest accrued and accruing under the outstanding convertible promissory notes and demand convertible notes referenced in (b) and (d) above.

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Item 13. Certain Relationships and Related Transactions, and Director Independence.

Related Party Transactions

Colorado Arrangement

On April 17, 2015, prior to Alan Bonsett's appointment as Chief Operating Officer, the Company, through CLS Labs Colorado, entered into the Colorado Arrangement with PRH to, among other things, (i) license its proprietary technology, methods and processes to PRH in Colorado in exchange for a fee; (ii) sub-lease warehouse and office space in Denver, Colorado to PRH where PRH can extract and process cannabis and other plant products in exchange for lease payments totaling an aggregate of $1,067,067 over a seventy-two (72) month term; (iii) build a processing facility and lease such facility, including equipment, to PRH in exchange for a monthly fee; and (iv) loan to PRH $500,000 pursuant to a promissory note (the "PRH Note"), to be used by PRH in connection with financing the building out, equipping, and developing of a grow facility by PRH that will be operated by a licensed third-party marijuana grower. Pursuant to the PRH Note, as amended by the parties, PRH will repay the principal due under the PRH Note in twenty (20) equal quarterly installments of Twenty-five Thousand Dollars ($25,000) commencing in the first month following the month in which PRH commences generating revenue at the grow facility and continuing until paid in full. 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 on the Payment Date and continuing until paid in full. All remaining outstanding principal and any accumulated unpaid interest due under the PRH Note will be due and payable on the fifth anniversary of the date of the initial payment. In the event of default as defined in the agreements related to the PRH Note, all amounts under the PRH Note shall become at once due and payable. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement. CLS Labs Colorado is currently unable to estimate when it will commence generating revenue through the grow facility due to difficulties it has encountered in obtaining regulatory approvals required to complete construction of its processing facility. As a result, we have decided to place our proposed Colorado operations on hold and pursue revenue producing opportunities in other states. Once we commence generating revenues elsewhere, we will likely re-visit our plans in Colorado.

Koretsky and Affiliate Notes

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

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

After excluding the loans from Mr. Koretsky, CLS CO 2016 and Newcan that were converted into our common stock effective as of May 31, 2017, there was a balance of $120,000 in loans that remained outstanding as of December 31, 2016. This amount consisted of the $120,000 principal balance of the Koretsky Funding Loans (which were exchanged for Newcan Convertible Note 1 on March 31, 2017). During 2017, Newcan advanced an additional $621,658 of unsecured, book entry loans prior to May 31, 2017. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 4"). The Newcan Convertible Note 4 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 4 in full, all principal and accrued interest under the Newcan Convertible Note 4 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

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Subsequent to May 31, 2017, Newcan has loaned us an aggregate additional $70,000 pursuant to the Newcan Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 5"). The Newcan Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 5 in full, all principal and accrued interest under the Newcan Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Binder Notes

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

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

All of Mr. Binder's loans that were outstanding as of December 31, 2016 were converted to common stock effective May 31, 2017, including all of his accrued deferred salary as of December 31, 2016. As of May 31, 2017, there was a balance of $149,550 in loans from Mr. Binder that remained outstanding. This amount consisted of the $72,000 principal balance of Binder Convertible Note 4, which related to advances made and salary accrued after January 1, 2017, and an additional $77,550 of unsecured, book entry loans. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, $77,500 of these loans plus accrued salary due to Mr. Binder in the amount of $37,500 were exchanged for a convertible note dated August 23, 2017 in the amount of $115,050 (the "Binder Convertible Note 5"). The Binder Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 5 in full, all principal and accrued interest under the Binder Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Subsequent to May 31, 2017, Mr. Binder has loaned us an aggregate additional $47,767 pursuant to the Binder Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans plus an additional $25,000 in accrued salary due to Mr. Binder were exchanged for a convertible note dated August 23, 2017 in the amount of $72,767 (the “Binder Convertible Note 6”). The Binder Convertible Note 6 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder’s election, at any time prior to payment or prepayment of the Binder Convertible Note 6 in full, all principal and accrued interest under the Binder Convertible Note 6 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

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Item 14. Principal Accounting Fees and Services.

Audit Fees

Fees paid for audit services totaled approximately $23,900 during the year ended May 31, 2017. These amounts include fees associated with the annual audit of our financial and statutory statements, reviews of our quarterly financial statements and of our quarterly and annual reports on Form 10-Q and Form 10-K, respectively.

Fees paid for audit services totaled approximately $21,500 during the year ended May 31, 2016. These amounts include fees associated with the annual audit of our financial and statutory statements, reviews of our quarterly financial statements and of our quarterly and annual reports on Form 10-Q and Form 10-K, respectively.

Audit-Related Fees

We did not pay any fees for audit-related services in the year ended May 31, 2017.

We did not pay any fees for audit-related services in the year ended May 31, 2016.

Tax Fees

We did not pay any fees for tax-related services in the year ended May 31, 2017.

We did not pay any fees for tax-related services in the year ended May 31, 2016.

All Other Fees

We did not procure any other services from our auditors during the year ended May 31, 2017.

We did not procure any other services from our auditors during the year ended May 31, 2016.

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PART IV

Item 15. Exhibits

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated April 28, 2015 by and among CLS Holdings USA, Inc., CLS Merger, Inc., and CLS Labs, Inc. (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
3.1	Amended and Restated Articles of Incorporation of CLS Holdings USA, Inc. (incorporated by reference from Exhibit 1.1 in the Company's Current Report on Form 8-K filed with the SEC on November 26, 2014).
3.2	Amended and Restated Bylaws of CLS Holdings USA, Inc. (incorporated by reference from Exhibit 1.2 in the Company's Current Report on Form 8-K filed with the SEC on November 26, 2014).
3.3	Certificate of Designation of CLS Holdings USA, Inc. with respect to Series A Convertible Preferred Stock (incorporated by reference from Exhibit 3.1 in the Company's Current Report on Form 8-K filed with the SEC on July 24, 2017).
4.1	Form of Stock Certificate (incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.1	Employment Agreement dated October 1, 2014 between CLS Labs, Inc. and Jeffrey Binder (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015) (1).
10.2	Addendum to Employment Agreement dated April 28, 2015 between CLS Labs, Inc., CLS Holdings USA, Inc. and Jeffrey Binder (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015) (1).
10.3	Lease dated April 17, 2015 between Casimir-Quince, LLC, and CLS Labs Colorado, Inc. (incorporated by reference from Exhibit 10.5 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.4	Sublease Agreement dated April 17, 2015 between CLS Labs Colorado, Inc. and Picture Rock Holdings, LLC. (incorporated by reference from Exhibit 10.6 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.5	Licensing Agreement dated April 17, 2015 between CLS Labs Colorado, Inc. and Picture Rock Holdings, LLC. (incorporated by reference from Exhibit 10.7 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.6	Equipment Lease dated April 17, 2015 between CLS Labs Colorado, Inc. and Picture Rock Holdings, LLC. (incorporated by reference from Exhibit 10.8 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.7	Subscription for Property Agreement dated July 16, 2014 between CLS Labs, Inc. and Raymond Keller (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.8	

	Promissory Note dated April 17, 2015 between CLS Labs Colorado, Inc. and Picture Rock Holdings, LLC (incorporated by reference from Exhibit 10.11 in the Company’s Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.9	Confidentiality, Non-Compete and Proprietary Rights Agreement dated July 16, 2014 between CLS Labs, Inc. and Raymond Keller (incorporated by reference from Exhibit 2.1 in the Company’s Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.10	Employment Agreement dated August 18, 2015 between CLS Holdings USA, Inc. and Alan Bonsett (incorporated by reference from Exhibit 10.1 on the Company’s Current Report on Form 8-K filed with the SEC on August 20, 2015) (1).

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10.11	Loan Agreement dated April 29, 2015 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on May 5, 2015).
10.12	Form of Indemnification Agreement (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on December 22, 2105).
10.13	Convertible Promissory Note dated January 12, 2016 in favor of Frank Koretsky (incorporated by reference from Exhibit 10.16 in the Company's Annual Report on Form 10-K filed with the SEC on August 29, 2016).
10.14	Convertible Promissory Note dated January 12, 2016, in favor of Jeffrey Binder (incorporated by reference from Exhibit 10.17 in the Company's Annual Report on Form 10-K filed with the SEC on August 29, 2016).
10.15	10% Original Issue Discount Convertible Promissory Note dated March 18, 2016, in favor of Old Main Capital, LLC (incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K filed with the SEC on March 24, 2016).
10.16	8% Convertible Promissory Note dated March 18, 2016 in favor of Old Main Capital, LLC (incorporated by reference from Exhibit 4.2 in the Company's Current Report on Form 8-K filed with the SEC on March 24, 2016).
10.17	Securities Purchase Agreement dated March 18, 2016 between the Company and Old Main Capital, LLC (incorporated by reference from Exhibit 10.20 in Amendment No. 1 to the Company's Registration Statement No. 333-210851 filed with the SEC on June 2, 2016).
10.18	Registration Rights Agreement dated March 18, 2016 between the Company and Old Main Capital, LLC (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on March 24, 2016).
10.19	Convertible Promissory Note dated April 11, 2016, in favor of Frank Koretsky (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on April 14, 2016).
10.20	Convertible Promissory Note dated April 11, 2016, in favor of Jeffrey Binder (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on April 14, 2016).
10.21	Equity Purchase Agreement dated April 18, 2016 between the Company and Old Main Capital, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on April 20, 2016).
10.22	Convertible Promissory Note dated July 20, 2016, in favor of Frank Koretsky (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on July 28, 2016).
10.23	Convertible Promissory Note dated July 20, 2016, in favor of Jeffrey Binder (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on July 28, 2016).
10.24	Amendment to Equity Purchase Agreement dated October 6, 2016 between the Company and Old Main Capital, LLC (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on October 7, 2016).

10.25	Amendment to Agreements dated October 6, 2016 between the Company and Old Main Capital, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on October 7, 2016).
10.26	Amendment #2 to the Convertible Promissory Notes Issued on March 18, April 22, and May 27, 2016 dated November 28, 2016 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on December 2, 2016).
10.27	Convertible Promissory Note dated January 10, 2017 in favor of Newcan Investment Partners, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on January 13, 2017).
10.28	Convertible Promissory Note dated January 10, 2017 in favor of Newcan Investment Partners, LLC (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on January 13, 2017).

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10.29	Amendment #3 to the Convertible Promissory Notes Issued on March 18, April 22, and May 27, 2016 dated March 27, 2017 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on March 28, 2017).
10.30	Convertible Promissory Note dated March 31, 2017 in favor of Newcan Investment Partners, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on April 4, 2017).
10.31	Convertible Promissory Note dated March 31, 2017 in favor of Jeffrey I. Binder (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on April 4, 2017).
10.32	Omnibus Loan Amendment Agreement dated May 31, 2017 among the Company, Jeffrey I. Binder, Frank Koretsky, Newcan Investment Partners, LLC and CLS CO 2016, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on June 2, 2017).
10.33	Amendment #4 to Convertible Promissory Note Issued on March 18, 2016 dated July 6, 2017 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on July 7, 2017).
10.34	Convertible Promissory Note dated August 23, 2017 in favor of Newcan Investment Partners, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2017).
10.35	Convertible Promissory Note dated August 23, 2017 in favor of Newcan Investment Partners, LLC (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2017).
10.36	Convertible Promissory Note dated August 23, 2017 in favor of Jeffrey I. Binder (incorporated by reference from Exhibit 10.3 in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2017).
10.37	Convertible Promissory Note dated August 23, 2017 in favor of Jeffrey I. Binder (incorporated by reference from Exhibit 10.4 in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2017).
10.38	Amendment #5 to Convertible Promissory Note Issued on March 18, 2016 dated August 23, 2017 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 24, 2017).
21.1	Subsidiaries of CLS Holdings USA, Inc.*
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act*
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*

101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

(1) Management Contract or Compensation Plan

* Filed herewith.

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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: August 29, 2017

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name and Signature	Title	Date
/s/ Jeffrey I. Binder **Jeffrey I. Binder**	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer and Principal Financial Officer)	August 29, 2017
/s/ Frank Koretsky **Frank Koretsky**	Director	August 29, 2017

to specific industries and are not expected to a have a material impact on our consolidated financial position, results of operations or cash flows.

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 7A. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL STATEMENTS

M&K CPAS PLLC

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of CLS Holdings USA, Inc.

We have audited the accompanying consolidated balance sheets of CLS Holdings USA, Inc. as of May 31, 2017 and 2016, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended May 31, 2017. CLS Holdings USA, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CLS Holdings USA, Inc. as of May 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended May 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company suffered a net loss from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC

Houston, Texas

August 29, 2017

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CLS Holdings USA, Inc.
Consolidated Balance Sheet

	May 31, 2017	May 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 78,310	$ 88,244
Prepaid expenses	1,410	6,742
Total current assets	79,720	94,986
Security deposit	50,000	50,000
Property, plant and equipment, net of accumulated depreciation of $1,784 and $892	890	1,782
Construction in progress	-	106,726
Intangible assets, net of accumulated amortization of $828 and $396	1,330	1,762
Total assets	$ 131,940	$ 255,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 581,765	$ 432,260
Accrued compensation, related party	53,750	266,250
Due to related party	17,930	17,930
Accrued interest	20,171	41,116
Accrued interest, related party	106,022	68,148
Notes payable, related parties	699,208	-
Convertible notes payable, net of discount of $57,644 and $227,475	252,356	72,525
Convertible notes payable, related party, net of discount of $0 and $95,447	-	22,678
Derivative liability	95,276	418,537
Total current liabilities	1,826,478	1,339,444
Noncurrent liabilities		
Convertible notes payable, net of discount of $0 and $390,021	-	43,312
Convertible notes payable, related parties, net of discount of $0 and $1,018,657	192,000	230,718
Notes payable, related parties	-	72,750
Total Liabilities	2,018,478	1,686,224
Commitments and contingencies	-	-
Stockholder's equity		
Common stock, $0.0001 par value; 250,000,000 shares authorized; 32,852,944 and 20,350,003 shares		

issued and outstanding at May 31, 2017 and May 31, 2016, respectively	3,286	2,035
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	7,032,836	2,627,183
Stock payable	68,950	65,700
Accumulated deficit	(8,991,610)	(4,125,886)
Total stockholder's equity (deficit)	(1,886,538)	(1,430,968)
Total liabilities and stockholders' equity (deficit)	$ 131,940	$ 255,256

See notes to consolidated financial statements.

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CLS Holdings USA, Inc.
Consolidated Statements of Operations

	For the Year Ended May 31, 2017	For the Year Ended May 31, 2016
Revenue	$ -	$ -
Cost of goods sold	-	-
Gross margin	-	-
Selling, general and administrative expenses	718,770	1,314,225
Startup costs	141,739	-
Professional fees	750,446	955,810
Total operating expenses	1,610,955	2,270,035
Operating loss	(1,610,955)	(2,270,035)
Other (income) expense:		
Interest expense	2,571,171	402,021
Loss on modification of related party debt	951,239	-
Loss on modification of debt	43,334	-
Change in fair value of derivative	(310,975)	(61,757)
Total other expense	3,254,769	340,264
Income (Loss) before income taxes	(4,865,724)	(2,610,299)
Income tax expense	-	-
Net income (loss)	$ (4,865,724)	$ (2,610,299)
Net income (loss) per share - basic	$ (0.23)	$ (0.13)
Net income (loss) per share - diluted	$ (0.23)	$ (0.13)
Weighted average shares outstanding - basic	20,778,785	20,146,260
Weighted average shares outstanding - diluted	20,778,785	20,146,260

See notes to consolidated financial statements.

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CLS Holdings USA, Inc.

Consolidated Statements of Stockholders' Equity

	Common Stock Amount	Common Stock Value	Additional Paid In Capital	Stock Payable	Accumulated Deficit	Total
Balance, May 31, 2015	20,000,003	$ 2,000	$ 887,614	$ 37,500	$ (1,515,587)	$ (588,473)
Stock issued for services	100,000	10	89,840	28,200	-	118,050
Share based compensation	250,000	25	327,475	-	-	327,500
Discount on notes from beneficial conversion feature	-	-	1,321,176	-	-	1,321,176
Imputed interest	-	-	1,078	-	-	1,078
Net loss	-	-	-	-	(2,610,299)	(2,610,299)
Balance, May 31, 2016	20,350,003	2,035	2,627,183	65,700	(4,125,886)	(1,430,968)
Settlement of derivative liability	-	-	612,850	-	-	612,850
Common stock issued for conversion of debt	1,685,981	169	137,331	-	-	137,500
Common stock issued for conversion of related party debt	10,816,960	1,082	2,703,158	-	-	2,704,240
Common stock payable for services	-	-	-	3,250	-	3,250
Loss on modification of related party debt	-	-	951,239	-	-	951,239
Imputed interest	-	-	1,075	-	-	1,075
Net loss	-	-	-	-	(4,865,724)	(4,865,724)
Balance, May 31, 2017	32,852,944	$ 3,286	$ 7,032,836	$ 68,950	$ (8,991,610)	$ (1,886,538)

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CLS Holdings USA, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended May 31, 2017	For the Year Ended May 31, 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (4,865,724)	$ (2,610,299)
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	1,075	1,078
Change in fair value of derivative	(310,975)	(61,757)
Interest expense - excess of discount over principal	-	11,330
Loss on modification of debt	43,334	-
Loss on modification of debt – related party	951,239	-
Issuance of stock for services	3,250	118,050
Note issued as commitment	-	200,000
Stock-based compensation	-	327,500
Amortization of debt discounts	2,274,519	286,317
Depreciation and amortization expense	1,324	1,288
Start-up costs	141,739	-
Changes in assets and liabilities:		
Prepaid expenses	5,332	25,058
Accounts payable and accrued expenses	238,387	285,993
Accrued compensation	150,000	161,243
Due to related parties	-	(525)
Accrued interest, related party	204,364	64,811
Accrued interest	(20,169)	38,486
Net cash used in operating activities	(1,182,305)	(1,151,427)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to acquire equipment	-	(2,674)
Payment for construction in progress	(35,013)	(106,726)

Net cash used in investing activities	(35,013)	(109,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from related party convertible notes payable	150,000	767,500
Proceeds from related party notes payable	1,447,550	72,750
Proceeds from issuance of convertible note	-	300,000
Principal payments on related party notes payable	(61,000)	-
Principal payments on notes payable	(329,166)	-
Net cash provided by financing activities	1,207,384	1,140,250
Net increase in cash and cash equivalents	(9,934)	(120,577)
Cash and cash equivalents at beginning of period	88,244	208,821
Cash and cash equivalents at end of period	$ 78,310	$ 88,244
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 53,837	$ -
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Convertible note issued for unpaid accrued salary	$ 362,500	$ -
Discount on notes due to derivatives	$ 600,564	$ 502,296
Discount on related party notes from beneficial conversion feature and warrants	$ -	$ 1,321,176
Related party notes payable reclassified as related party convertible notes payable	$ 849,750	$ 1,367,500
Common stock issued for conversion of related party notes payable	$ 2,704,240	$ -
Common stock issued for conversion of convertible notes payable	$ 137,500	$ -
Settlement of derivative liability	$ 612,850	

See notes to consolidated financial statements.

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CLS HOLDINGS USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BUSINESS ORGANIZATION AND NATURE OF OPERATIONS

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 (post Reverse-Split) shares of the Company’s common stock were issued to CLS Labs in exchange for the 10,000,000 shares that it owned by virtue of the above-referenced purchase from Larry Adelt.

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

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

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 $8,991,610 as of May 31, 2017. Further losses are anticipated in the development of its business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months from operations, with loans and/or the sale of debt or equity securities. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 – SUMMARY OF 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 Labs, Inc. and CLS Labs Colorado, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

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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 $78,310 and $88,244 as of May 31, 2017 and 2016.

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. Computer equipment is being depreciated over a three-year period.

Concentrations of Credit Risk

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

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The Company incurred no advertising and marketing costs for the years ended May 31, 2017 and 2016.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $0 and $0 for the years ended May 31, 2017 and 2016, 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, note receivable, 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 sheet at fair value. The conversion features of certain of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative component of the convertible notes issued on March 18, 2016 (the "2016 Convertible Notes") was valued at issuance, at conversion or redemption, and at each period end. The following assumptions were used for the valuation of the derivative liability related to the 2016 Convertible Notes:

For the year ended May 31, 2017:

- That the quoted market price of the common stock, which decreased from $0.0409 as of November 30, 2016 to $0.1250 as of May 31, 2017, would fluctuate with the Company's projected volatility;

- That the conversion price of the amended 2016 Convertible Notes would be equal to the lesser of (i) $1.07 or $0.80; or (ii) 75% of the lowest Volume Weighted Average Price ("VWAP") in the 15 consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date;

- That an event of default at a 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and that instead of a penalty, there would be an alternative conversion price;

- That the projected volatility curve from an annualized analysis for each valuation period would be based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 265% to 407% during the year ended May 31, 2017;

- That the Company would redeem the notes expiring on September 18, 2017 (with a 130% penalty), projected initially at 50% of the time and increasing monthly by 5.0% to a maximum of 75.0% (from alternative financing being available for a redemption event to occur);

- That the holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the common stock underlying the 2016 Convertible Notes was eligible for sale in compliance with securities laws (assumed at September 18, 2016) and the Company was not in default; and

- That unless an Event of Default occurred, the holder would sell, per trading day, an amount of Common Stock up to the greater of (i) $5,000 or (ii) 25% multiplied by the "Aggregate Amount," as defined in the 2016 Convertible Notes.

For the year ended May 31, 2016:

- That the quoted market price of the common stock of $1.06 – $0.88 would fluctuate with the Company's projected volatility;

- That the original conversion prices of the 2016 Convertible Notes, which are fixed at $1.07 and $0.80, or upon default/fundamental transaction at 52%, of the 20 trading day lowest VWAP, would remain in effect;

- That an event of default at a 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and that instead of a penalty, there would be an alternative conversion price;

- That the projected volatility curve from an annualized analysis for each valuation period would be based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 138% through 161% at issuance, conversion, and at May 31, 2016;

- That the Company would redeem the notes (with a 130% prepayment penalty) projected initially at 0% of the time and increasing monthly by 1.0% to a maximum of 10.0% (from alternative financing being available for a redemption event to occur); and

- That the holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the registration statement was effective (assumed after 180 days) and the Company was not in default.

Revenue Recognition

The Company applies revenue recognition provisions pursuant to ASC No. 605, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies.

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 May 31, 2017 and 2016, the Company excluded from the calculation of fully diluted shares outstanding a total of 1,180,350 and 2,658,441 shares, respectively, issuable upon the conversion of notes payable because the result would have been anti-dilutive.

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

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the year ended May 31, 2017 and 2016.

Income Taxes

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

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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.

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 4 – PREPAID EXPENSES

The Company had prepaid expenses of $1,410 and $6,742 at May 31, 2017 and May 31, 2016, respectively, consisting of prepaid legal fees.

NOTE 5 – CONSTRUCTION IN PROGRESS

The Company had construction in progress in the amount of $0 and $106,726 at May 31, 2017 and 2016, respectively, on improvements to its leased facility in Colorado. During the year ended May 31, 2017, the Company capitalized an additional $35,013 to construction in progress at its leased facility in Colorado. Also during the year ended May 31, 2017, the Company wrote-off the amount of $141,739 of construction in progress at its leased facility in Colorado.

NOTE 6 – SECURITY DEPOSIT

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

NOTE 7 – NOTE RECEIVABLE

During the year ended May 31, 2015, the Company loaned $500,000 (the "Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"). Pursuant to the Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016, and May 31, 2016, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing in the month following the month in which PRH commences 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 is currently unable to estimate when it will commence generating revenues at the grow facility. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing after such initial payment and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on the five-year anniversary of the initial payment thereunder. In the event of default as defined in the agreements underlying the Note, all amounts under the Note shall be due and payable at once. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000. This receivable is recorded on the balance sheet as of May 31, 2017 and 2016 in the amount of $0, net of allowance in the amount of $500,000 (see note 10).

NOTE 8 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company had accounts payable and accrued liabilities of $581,765 and $432,260 at May 31, 2017 and May 31, 2016, respectively, consisting of legal fees, consulting fees and other trade payables.

NOTE 9 – RELATED PARTY TRANSACTIONS

For the year ended May 31, 2017:

As of May 31, 2017, the Company owed $37,500 to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary. In July 2016, $250,000 was transferred from accrued salary to a convertible promissory note due to Mr. Binder; in February 2017, an additional $112,500 was transferred from accrued salary to a convertible promissory note due to Mr. Binder (see note 10).

As of May 31, 2017, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

As of May 31, 2017, the Company had amounts due to related parties of $17,930, representing expenses paid by officers and directors on behalf of the Company. The Company accrued interest at the rate of 6% per annum on these liabilities, and recorded interest expense on these liabilities in the amounts of $1,075 during the year ended May 31, 2017. This interest accrual was charged to additional paid-in capital.

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On May 31, 2017, the Company entered into the Omnibus Loan Amendment Agreement (the “Omnibus Loan Agreement”) with Jeffrey I. Binder, Frank Koretsky, Newcan Investment Partners LLC and CLS CO 2016, LLC (collectively, the “Insiders”). See note 10. Pursuant to the Omnibus Loan Agreement, effective May 31, 2017, the following amounts of principal and accrued interest were converted to common stock of the Company:

	Principal	Accrued Interest	# Shares
Jeffrey Binder	$ 442,750	$ 19,427	(1,848,708)
Frank Koretsky	1,485,000	130,069	(6,460,276)
Newcan Investment Partners LLC	460,000	7,747	(1,870,988)
CLS CO 2016 LLC	150,000	9,247	(636,988)
Total	$ 2,537,750	$ 166,490	(10,816,960)

For the year ended May 31, 2016:

As of May 31, 2016, the Company owed $250,000 to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary.

As of May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

As of May 31, 2016, the Company had amounts due to related parties of $17,930, representing expenses paid by officers and directors on behalf of the Company. The Company accrued interest at the rate of 6% per annum on these liabilities, and recorded interest expense on these liabilities in the amounts of $1,078 during the year ended May 31, 2016. This interest accrual was charged to additional paid-in capital.

Related Party Notes Payable

The Company has convertible notes payable and notes payable outstanding to Jeffrey Binder, an officer and director, and to Frank Koretsky, a director (see note 10).

NOTE 10 – NOTES PAYABLE

Related Party Notes Payable

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

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

The following tables summarize the Company’s loan balances at May 31, 2017 and 2016:

	May 31, 2017	May 31, 2016
Note payable to Jeffrey Binder, an officer and director of the Company, for advances to fund operations (the “Binder Funding Notes”). The Binder Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Binder Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2016, Mr. Binder advanced a total of $95,250 to the Company under the Binder Funding Note 1; during the year ended May 31, 2016, $92,500 of this amount was transferred out of the Binder Funding Note 1 and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 1 and 2 below). During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $1,308 on the Binder Funding Note 1. In July 2016, the remaining principal balance of $2,750 in the Binder Funding Note 1 was transferred to a new Convertible Note payable to Mr. Binder (the “Binder Convertible Note 3”). During the twelve months ended May 31, 2017, Mr. Binder advanced a total of $145,850 to the Company under the Binder Funding Note 1. Also during the year ended May 31, 2017, Mr. Binder loaned the Company an additional $49,700; which was credited to the Binder Funding Note 1. Also during the year ended May 31, 2017, principal in the amount of $59,750 and accrued interest in the amount of $813 was transferred out of the Binder Funding Note 1 and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 3 and 4 below). Also during the year ended May 31, 2017, the Company made principal payments in the aggregate amount of $61,000 under the Binder Funding Note 1. During the year ended May 31, 2017, the Company accrued interest in the amount of $1,910 on the Binder Funding Note 1. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Binder Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of $0.25 per share.	$ 77,550	$ 2,750
Note payable to Frank Koretsky, a director of the Company, for advances to fund operations (the “Koretsky Funding Notes”). The Koretsky Funding Notes bear interest at a rate of 6% for loans made through November 30, 2016, and at a rate of 10% for loans made after November 30, 2016. The Koretsky Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, Mr. Koretsky advanced $550,000 to the Company under the Koretsky Funding Notes. Also during the twelve months ended May 31, 2017, $210,000 of principal and $1,346 of accrued interest was transferred out of the Koretsky Funding Notes and used to fund a new convertible notes payable to Mr. Koretsky (see Koretsky Convertible Note 3 below). Also during the twelve months ended May 31, 2017, principal and accrued interest in the amounts of $410,000 and $4,046, respectively, were transferred out of the Koretsky Funding Notes and contributed to the Newcan Funding Notes (see Newcan Funding Notes, below). During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $5,104 on the Koretsky Funding Notes.	-	70,000
Notes payable to Newcan Investment Partners, LLC (“Newcan”), an entity owned by Frank Koretsky, a director of the Company, for advances to fund operations (the “Newcan Funding Notes”). The Newcan Funding Notes bear interest at a rate of 10%. The Newcan Funding Notes have no maturity date and are due on demand. During the twelve months ended May 31, 2017, principal and interest in the amount of $410,000 and $4,046, respectively, were transferred from the Koretsky Funding Notes into the Newcan Funding Notes (see Koretsky Funding Notes, above). Also during the year ended May 31, 2017, Newcan advanced $791,658 to the Company under the Newcan Funding Notes. Also during the year ended May 31, 2017, principal in the amount of $460,000 and accrued interest in the amount of $7,747, respectively, were transferred from the Newcan Finding Notes and used to fund the Newcan Convertible Notes 2 and 3 (see below); also during the year ended May 31, 2017, principal and accrued interest in the amounts of $120,000 and $2,121, respectively, were transferred out of the Newcan Funding Notes in order to fund the Newcan Convertible Note 1; see below. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $13,434 on this note. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, a conversion feature was added to the Newcan Funding Notes whereby principal and accrued interest is convertible into common stock of the Company at a rate of $0.25 per share.	621,658	-
Total - Notes Payable, Related Parties	$ 699,208	$ 72,750

May 31,	May 31,

	2017	2016
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Binder Convertible Note 1"). This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $6,250 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $50,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $9,599 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $1,151 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 1 was changed to $0.25 per share, and principal and accrued interest in the amounts of $50,000 and $3,872, respectively, were converted into a total of 215,488 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Binder Convertible Note 1 in the amount of $40,401 was charged to operations, and the Company accrued interest in the amount of $3,000.	-	50,000
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Binder Convertible Note 2"). During the year ended May 31, 2016, Mr. Binder made advances to the Company in the aggregate amount of $95,250 (see Binder Funding Notes); $42,500 of this amount was used to fund the Binder Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2017 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $5,313 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $37,840 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $7,263 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $773 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $42,500 and $3,583, respectively, were converted into a total of 184,332 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Binder Convertible Note 2 in the amount of $35,260 was charged to operations, and the Company accrued interest in the amount of $4,287.	-	42,500

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	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Binder Convertible Note 3"). The Binder Convertible Note 3 was funded with the conversion of $250,000 of unpaid accrued salary due to Mr. Binder and $12,750 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Binder Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $262,750 and $11,972, respectively, were converted into a total of 1,098,888 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $22,742 on the Binder Convertible Note 3.	-	-
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated March		

31, 2017 (the "Binder Convertible Note 4"). The Binder Convertible Note 4 was funded with the conversion of $112,500 of unpaid accrued salary due to Mr. Binder and $47,000 of advances Mr. Binder made to the Company under the Binder Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of $19,938 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $0.25 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted, and principal in the amount of $87,500 was converted into a total of 350,000 shares of common stock. The remaining principal balance of $72,000 will be due in eight quarterly payments in the amount of $9,000 commencing July 1, 2018; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,666 on the Binder Convertible Note 4.	72,000	-

	May 31, 2017	**May 31, 2016**
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Koretsky Convertible Note 1"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000) pursuant to note payable agreements (see Koretsky Funding Note 1). During the year ended May 31, 2016, $895,000 of this amount was used to fund the Koretsky Convertible Note 1. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $111,875 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $895,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $171,822 of this discount was charged to operations. During the twelve months ended May 31, 2016 the Company accrued interest in the amount of $20,597 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 1 was changed to $0.25 per share, and principal and accrued interest in the amounts of $895,000 and $83,089, respectively, were converted into a total of 3,912,356 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the remaining discount on the Koretsky Convertible Note 1 in the amount of $732,178 was charged to operations, and the Company accrued interest in the amount of $53,700.	-	895,000
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Koretsky Convertible Note 2"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000), pursuant to note payable agreements (see Koretsky Funding Notes). During the year ended May 31, 2016, $380,000 of this amount was used to fund the Koretsky Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2017 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $47,500 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $338,336 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $64,939 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $7,100 on this note. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $380,000 and $35,302, respectively, were converted into a total of 1,661,208 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May		

31, 2017, the remaining discount on the Koretsky Convertible Note 2 in the amount of $315,265 was charged to operations, and the Company accrued interest in the amount of $38,000.		380,000

	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated July 20, 2016 and due July 1, 2019 (the "Koretsky Convertible Note 3"). The Koretsky Convertible Note 3 was funded with $210,000 of advances Mr. Koretsky made to the Company under the Koretsky Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Commencing on October 1, 2017, the first of eight principal payments in the amount of $32,844 will become due; subsequent principal payments will become due on the first day of each, January, April, July and October until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Koretsky Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $210,000 and $11,678, respectively, were converted into a total of 886,712 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $19,021 on the Koretsky Convertible Note 3.	-	-
Unsecured convertible note issued to Newcan, an entity owned by Frank Koretsky, a director of the Company, dated March 31, 2017 (the "Newcan Convertible Note 1"). The Newcan Convertible Note 1 was funded with the conversion of $120,000 of advances made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No interest payments are required until April 1, 2018, at which time all accrued interest becomes due and payable. Commencing on July 1, 2018, the first of eight principal payments in the amount of $15,000 will become due; subsequent principal payments will become due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.25 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $0.25 per share. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,005 on the Koretsky Convertible Note 4. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, the requirement to issue warrants upon conversion was deleted.	120,000	-
Unsecured convertible note issued to CLS CO 2016, LLC an entity affiliated with Frank Koretsky, a director of the Company, dated August 3, 2016 and due August 1, 2018 (the "CLS CO 2016 Note"). This note has a face amount of $150,000 and bears interest at the rate of 15% per annum. All interest accruing on this Note through the first anniversary of this Note shall be added to principal. Commencing on November 1, 2017, the Company shall pay the outstanding principal balance in four (4) equal quarterly installments, together with accrued interest, in arrears, until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the CLS CO 2016 Note was changed to $0.25 per share, and principal and accrued interest in the amounts of $150,000 and $9,247, respectively, were converted into a total of 636,988 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $18,555 on the CLS CO 2016 Note.	-	-

	May 31, 2017	May 31, 2016
Unsecured convertible note issued to Newcan, dated January 10, 2017 and due January 2, 2020 (the "Newcan Convertible Note 2"). The Newcan Convertible Note 2 was funded with $410,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes		

due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $51,250 will become due; subsequent principal payments will become due on the first day of each, July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Newcan Convertible Note 2 was changed to $0.25 per share, and principal and accrued interest in the amounts of $410,000 and $7,527, respectively, were converted into a total of 1,670,108 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $15,838 on the Newcan Convertible Note 2.	-	-
Unsecured convertible note issued to Newcan, dated January 10, 2017 and due January 2, 2020 (the "Newcan Convertible Note 3"). The Newcan Convertible Note 3 was funded with $50,000 of advances Newcan made to the Company under the Newcan Funding Notes. This note bears interest at the rate of 10% per annum. No payments are required until January 2, 2018, at which time all accrued interest becomes due and payable. Commencing on April 1, 2018, the first of eight principal payments in the amount of $6,250 will become due; subsequent principal payments will become due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of the Newcan Convertible Note 3 was changed to $0.25 per share, and principal and accrued interest in the amounts of $50,000 and $220, respectively, were converted into a total of 200,880 shares of common stock; and (ii) the requirement to issue warrants upon conversion was deleted. During the twelve months ended May 31, 2017, the Company accrued interest in the amount of $2,822 on the Newcan Convertible Note 3.	-	-
Total – Convertible Notes Payable, Related Parties	$ 192,000	$ 1,367,500
Less: Discount	-	(1,114,104)
Convertible Notes Payable, Related Parties, Net of Discounts	$ 192,000	$ 253,396
Convertible Notes Payable, Related Parties, Current Portion	$ -	$ 118,125
Convertible Notes Payable, Related Parties, Long-term Portion	$ 192,000	$ 1,249,375
Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion	$ -	$ 22,678
Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion	$ 192,000	$ 230,718

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	May 31, 2017	May 31, 2016
Convertible promissory note issued to an unaffiliated third party due April 29, 2018 (the "April 2015 Note"). During the twelve months ended May 31, 2015, the lender loaned the Company the amount of $200,000 pursuant to this note. The April 2015 Note bears interest at a rate of 15% per annum. On the first anniversary of this note, the all then accrued interest became due. Thereafter, the Company is required to make eight equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 until paid in full. The note and any accrued unpaid interest is convertible into common stock of the Company. For each dollar converted, the note holder shall receive two shares of common stock and one three-year warrant to purchase 1.33 shares of common stock at $0.75 per share. The Company recognized a discount of $200,000 on the April 2015 Note related to the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $66,667 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $30,082 on this note. During the year ended May 31, 2017, the Company repaid principal in the amount of $100,000 and interest in the amount of $53,837 on this note. Also during the year ended May 31, 2017, the Company charged $100,545 of the discount to operations, and accrued interest in the amount of $22,440 on the April 2015 Note.	100,000	200,000
Convertible Promissory Note payable to Old Main Capital, LLC ("Old Main") dated March 18, 2016, for the purchase of up to $555,555 in 10% Original Issue Discount Convertible Promissory Notes (the "10% Notes"). During the year ended May 31, 2016, Old Main loaned the Company the amount of $333,332		

pursuant to these notes. These notes bear interest at the rate of 10% per annum. Old Main may, at its option, convert all or a portion of the notes and accrued but unpaid interest into shares of common stock at a conversion price of $0.80 per share (post Reverse-Split) (the "Fixed Conversion Price"). The Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the Fixed Conversion Price (the "Base Conversion Price"), other than certain exempt issuances. In such an instance, the Fixed Conversion Price will be lowered to match the Base Conversion Price. The shares underlying the 10% Notes are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after the registration statement is declared effective, the Company must begin to redeem 1/24th of the face amount of the notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payments may be made, at our option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $0.80 or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days immediately prior to the conversion date. The Company recognized a discount of $330,188 on the 10% Notes related to the value of the original issue discount and embedded derivative. During the twelve months ended May 31, 2016, $4,056 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $5,160 on this note. On October 6, 2016, the 10% Notes were amended to increase the interest rate to 15% (effective August 1, 2016) and subsequently amended November 28, 2016 to convert the 10% Notes from installment notes to "balloon" notes, with all principal and accrued interest due on September 18, 2017. In exchange for amending the terms of the 10% Notes, the Company increased the outstanding principal balance by 10% to $366,666; pursuant to this modification, the Company recorded a loss on modification of debt in the amount of $33,334. In addition, the Fixed Conversion Price was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date. The 10% Notes were revalued as of the November 28, 2016 amendment and the Company recognized a discount of $366,666 on the value of the embedded derivative. During the three months ended February 28, 2017, Old Main converted an aggregate of $100,000 of principal, in six transactions, into 828,173 shares of common stock. On March 27, 2017, the Company entered into a further amendment to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016, whereby the Company agreed to prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,670, consisting of principal in the amount of $229,166, accrued interest in the amount of $57,504, and a prepayment penalty in the amount of $86,000. The payment to Old Main of $372,670 was made from the proceeds of loans to the Company made by Newcan and Jeffrey Binder, who are either officers and directors of the Company or affiliates of officers and directors of the Company. These loans are reflected in the Newcan Funding Notes (see above, $323,000); and the Binder Funding Note 1 (see above, $49,700). Also, during the year ended May 31, 2017, the Company accrued interest in the amount of $52,344 on the 10% notes.	-	333,332

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	May 31, 2017	May 31, 2016
Convertible promissory note payable to Old Main dated March 18, 2016 and bearing interest at a rate of 8% (the "8% Note"). The 8% Note was issued for Old Main's commitment to enter into an equity line transaction with the Company and prepare all of the related transaction documents. Old Main may, at its option, convert all or a portion of the note and accrued but unpaid interest into shares of common stock at a conversion price of $1.07 per share (post Reverse-Split) (the "8% Fixed Conversion Price"). The 8% Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the 8% Fixed Conversion Price (the "8% Base Conversion Price"), other than certain exempt issuances. In such an instance, the 8% Fixed Conversion Price will be lowered to match the 8% Base Conversion Price. The shares underlying the 8% Note are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after this registration statement becomes effective, the Company must begin to redeem 1/6th of the face amount of the note and any accrued but unpaid interest on a monthly basis. Such amortization payment may be made, at its option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $1.07 (post Reverse-Split) or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. The Company recognized a discount of $172,108 on the value of the embedded derivative. On November 28, 2016, the 8% Note was amended converting the note from an installment note to a "balloon" note, with all principal and accrued interest due on March 18, 2017. In addition, the Fixed		

Conversion Price was changed to a variable conversion price equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date. The November 28, 2016 amendment required an extinguishment analysis of the 8% Note resulting in gain on extinguishment of debt in the amount of $81,496 for the nine months ended February 28, 2017. The gain on extinguishment of debt was included in additional paid-in capital at February 28, 2017. The 8% Note was revalued as of the November 28, 2016 amendment and the Company recognized a discount of $169,476 on the value of the embedded derivative. At February 28, 2017 and May 31, 2016, the amount of discount remaining on these notes was $118,998 and $163,586, respectively. On March 27, 2017, the Company entered into a further amendment to the convertible promissory notes issued on March 18, April 22 and May 27, 2016, whereby the Company agreed to increase the outstanding amount due under the 8% Note as of March 18, 2017 by 5%, or $10,000. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017. Also during the year ended May 31, 2017, the Company accrued interest in the amount of $17,207 on the 8% Note.		210,000		200,000
Total - Convertible Notes Payable	$	310,000	$	733,332
Less: Discount		(57,644)		(617,495)
Convertible Notes Payable, Net of Discounts	$	252,356	$	115,837
Total - Convertible Notes Payable, Current Portion	$	310,000	$	300,000
Total - Convertible Notes Payable, Long-term Portion	$	-	$	433,332
Total - Convertible Notes Payable, Net of Discounts, Current Portion	$	252,356	$	72,525
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	$	-	$	43,312
Discounts on notes payable amortized to interest expense:	$	252,356	$	286,317

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Beneficial Conversion Features

The 8% Note and the 10% Notes contain conversion features that create derivative liabilities. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative components of the 8% and 10% Convertible Notes were valued at issuance, at conversion, at restructure, and at period end. See note 3 and note 10.

Certain other of the Company's notes payable contain beneficial conversion features which are not derivatives, but which require valuation in order to determine the discount to the related note payable. The value of these conversion features is calculated using the Black-Scholes valuation model. The following table illustrates certain key information regarding the conversion option valuation assumptions under the Black-Scholes valuation model at May 31, 2016 and 2015:

	May 31,	
	2017	**2016**
Volatility	64% to 138%	89% to 107%
Dividends	-	-
Risk-free interest rates	0.86% to 1.19%	1.18% to 0.91%
Term (years)	1.25 to 3	3

NOTE 11 – STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 250,000,000 shares of common stock, par value $0.0001 per share and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 32,852,944 and 20,350,003 shares of common stock issued and outstanding as of May 31, 2017 and 2016, respectively.

The Company recorded imputed interest of $1,075 and $1,078 during the year ended May 31, 2017 and 2016 on related party payables due to a director and officer of the Company.

On August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Mr. Bonsett was entitled to a one-time signing bonus of 250,000 shares of restricted common stock of the Company, which became fully vested one year from the effective date of the agreement. The shares were issued on January 19, 2016. The Company valued the shares at $327,500 based on the stock price at August 3, 2015. During the year ended May 31, 2016, the Company recognized $327,500 in share based compensation.

On April 18, 2016, the Company entered into an equity purchase agreement (the "Equity Purchase Agreement") with Old Main providing that, upon the terms and subject to the conditions thereof, Old Main is committed to purchase, on an unconditional basis, shares of common stock (the "Commitment Shares") at an aggregate price of up to $4,000,000 over the course of a 24-month term (the "Equity Line"). From time to time over the 24-month term of the Equity Purchase Agreement, the Company may, in its sole discretion, provide Old Main with a put notice (each, a "Put Notice"), to purchase a specified number of Commitment Shares (each, the "Put Amount Requested"). The actual amount of proceeds the Company receives pursuant to each Put Notice (each, the "Put Amount") will be determined by multiplying the Put Amount Requested by the applicable purchase price. The purchase price of each Commitment Share will equal 80% of the market price of the Company's common stock during the five consecutive trading days immediately following the clearing date associated with the applicable Put Notice.

On November 28, 2016, the Company amended the 2016 Convertible Notes, which was treated as an extinguishment and reissuance of the debt. As a result, the Company recorded a gain on the settlement of derivative liability in the amount of $254,114, which was included in additional paid-in-capital at May 31, 2017.

Common Stock

Year ended May 31, 2017:

From December 21, 2016, through March 14, 2017, Old Main, holder of the 2016 Convertible Notes, converted an aggregate of $137,500 of principal, in eight transactions, into 1,685,981 shares of common stock. As a result of the conversions, the Company charged the amount $143,325 to additional paid-in capital related to settlement of derivative liability. See note 10.

In May 2017, the Company agreed to issue 25,000 shares of common stock with a fair value of $3,250 to a service provider. At May 31, 2017, these shares had not been issued, and the amount of $3,250 is included in stock payable on the Company's balance sheet.

In March 2017, the Company entered into a modification agreement regarding the 8% Promissory Note due to Old Main, and the derivative liability in the amount of $70,143 related to the conversion feature of this note was charged to additional paid-in capital. See note 10.

In May 2017, the Company paid the 10% Notes due to Old Main, and the derivative liability in the amount of $145,268 related to the conversion feature of this note was charged to additional paid-in capital. See note 10.

On May 31, 2017, pursuant to the Omnibus Loan Agreement, four related party convertible noteholders converted principal and interest in the aggregate amount of $2,537,750 and $166,490, respectively, into a total of 10,816,960 shares of common stock. As a result of the conversions, the Company charged the amount $951,239 to loss on modification of debt. See note 10.

Year ended May 31, 2016:

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

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

On October 15, 2015, pursuant to a consulting agreement, the Company 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company had 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 of the common stock on the grant date.

On December 29, 2015, pursuant to a consulting agreement commencing on January 4, 2016, the Company agreed to issue 25,000 shares of common stock per month, valued at $21,250 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company 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 of the common stock on the grant date.

On January 19, 2016, the Company issued 250,000 shares of restricted common stock with a fair value of $327,500 to its Chief Operating Officer as a signing bonus. The shares vested on August 1, 2016.

NOTE 12 – INCOME TAXES

The Company accounts for income taxes under FASB ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

As of May 31, 2017 and 2016, the Company had incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets.

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The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	May 31, 2017	May 31, 2016
Federal and state statutory rate	34%	34%
Net operating loss carry forwards	1,386,438	787,513
Valuation allowance for deferred tax assets	(1,386,438)	(787,513)
Net deferred tax assets	-	-

As of May 31, 2017 and 2016, the Company had net operating loss carry forwards of approximately $1,386,438 and $787,513 available to offset future taxable income. The net operating loss carry forwards, if not utilized, will begin to expire in 2037.

Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at May 31, 2017 and 2016. The Company had no uncertain tax positions as of May 31, 2017.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Lease Arrangement

The Company, through CLS Labs Colorado, leases 42,392 square feet of warehouse and office space (the "Leased Space") in a building located on 1.92 acres in Denver Colorado. CLS Labs Colorado subleases the Leased Space to Picture Rock Holdings, LLC as part of an arrangement whereby Picture Rock Holdings, LLC and its affiliate will conduct certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, as permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. Total expense for the lease was $177,844 for the years ended May 31, 2017 and 2016.

Future annual minimum base rental payments for the lease as of May 31, 2017 are approximately as follows:

For the 12 months ended May 31,	
2018	177,845
2019	177,845
2020	177,845
2021	148,202
Thereafter	-
Total	681,737

Employment Agreements

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

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Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett is received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement, as discussed in Note 10.

At May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company prior to his September 1, 2015 termination, in the amount of $16,290.

NOTE 14 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the Company's derivative financial liabilities that are recorded at fair value on a recurring basis at May 31, 2017 and 2016.

	May 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ 95,276	$ 95,276

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

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

Liabilities Measured at Fair Value	**Derivative Liability**
Balance as of May 31, 2015	$ -
Issuances	480,294
Revaluation gain	(61,757)
Balance as of May 31, 2016	$ 418,537
Issuances	600,564
Convert or Redeem	(612,850)
Revaluation gain	(310,975)
Balance as of May 31, 2017	$ 95,276

NOTE 15 – SUBSEQUENT EVENTS

On July 6, 2017, the Company entered into Amendment #4 to Convertible Promissory Note Issued on March 18, 2016 (the "Fourth Amendment") to further amend the terms of the 8% Note, which is the only Note that remains outstanding. Pursuant to the Fourth Amendment, the maturity date of the 8% Note was extended to July 15, 2017 and the outstanding balance of the 8% Note as of June 30, 2017 was increased by multiplying it by 1.075. The Fourth Amendment was effective on June 30, 2017.

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In order to raise additional capital, make provision for the repayment of certain convertible promissory notes and acquire certain operating companies in synergistic businesses, on June 29, 2017, the Company entered into a non-binding letter of intent (the “LOI”) with Pure Harvest Cannabis Producers, Inc. (“Pure Harvest”) to (i) arrange for the sale of that certain 8% convertible promissory note in the original principal amount of $200,000 made by the Corporation in favor of Old Main Capital, LLC (the “Old Main Note”) by Old Main Capital, LLC; (ii) arrange for the sale of that certain 15% convertible promissory note in the original principal amount of $200,000 made by the Corporation in favor of Dr. Trocki (the “Trocki Note”) by Dr. Trocki; (iii) arrange for the sale of certain unrestricted shares of common stock of the Company by certain unaffiliated shareholders to certain persons named by Pure Harvest; (iv) arrange for the sale of certain restricted shares of common stock by the Company by certain affiliated shareholders to certain persons named by Pure Harvest; (v) arrange for the assumption of certain debt of the Corporation by certain of the Company’s affiliates; (vi) structure certain private securities offerings of the Company’s securities; and (vii) acquire certain assets of Pure Harvest. As the first step of implementing the LOI, the Company authorized and designated 650,000 shares of its preferred stock as “Series A Preferred Stock” with the intention of requiring the purchasers of the Old Main Note and the Trocki Note to convert such convertible debt into preferred stock. No preferred stock has been issued to date.

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

On August 23, 2017, Jeffrey Binder exchanged $115,050 and $72,767 in principal on Binder Funding Notes for the Binder Convertible Note 5 and the Binder Convertible Note 6. On the same date, Newcan Investment Partners, LLC exchanged $621,658 and $70,000 in principal on Newcan Funding Notes for Newcan Convertible Note 4 and Newcan Convertible Note 5. These notes bear interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Commencing on January 2, 2019, the first of eight equal principal payments will become due; subsequent principal payments will become due on the first day of each April, July, October and January until paid in full. These notes and accrued interest under these notes may be converted, in whole or in part, into one share of common stock for each $0.25 converted.

On August 23, 2017, the Company entered into Amendment #5 to Convertible Promissory Note Issued on March 18, 2016 (the "Fifth Amendment") to further amend the terms of the 8% Note. Pursuant to the Fifth Amendment, the maturity of the 8% Note was extended to September 15, 2017. The outstanding balance remained unchanged. The Fifth Amendment was effective on July 15, 2017.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Item 9B. Other Information.

None.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
CLS Holdings USA, Inc.

We have audited the accompanying consolidated balance sheets of CLS Holdings USA, Inc. as of May 31, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the years ended May 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CLS Holdings USA, Inc. as of May 31, 2016 and 2015, and the results of its operations, changes in shareholders' deficit and cash flows for the periods described above in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC
www.mkacpas.com
Houston, Texas
August 25, 2015

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CLS HOLDINGS USA, INC.
CONSOLIDATED BALANCE SHEETS

	May 31, 2016	May 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents	$ 88,244	$ 208,821
Prepaid expenses	6,742	31,800
Total current assets	94,986	240,621
Security deposit	50,000	50,000
Property, plant and equipment, net of accumulated depreciation of $892 and $0	1,782	-
Construction in progress	106,726	-
Note receivable related party, noncurrent, net of allowance of $500,000 and $500,000	-	-
Intangible assets, net of accumulated amortization of $396 and $0	1,762	2,158
Total assets	$ 255,256	$ 292,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 431,017	$ 145,024
Accrued compensation, related party	267,493	106,250
Due to related party	17,930	18,455
Accrued interest	41,116	2,630
Accrued interest, related party	68,148	3,337
Convertible notes payable, net of discount of $227,475 and $0	72,525	-
Convertible notes payable, related party, net of discount of $95,447 and $0	22,678	-
Derivative liability	418,537	-
Notes payable, related parties	-	600,000
Total current liabilities	1,339,444	875,696

Noncurrent liabilities		
Convertible notes payable, net of discount of $390,021 and $194,444	43,312	5,556
Convertible notes payable, related parties, net of discount of $1,018,657 and $0	230,718	-
Notes payable, related parties	72,750	-
Total Liabilities	1,686,224	881,252
Commitments and contingencies	-	-
Stockholder's equity (deficit)		
Common stock, $0.0001 par value; 250,000,000 shares authorized; 20,350,003 and 20,000,003 shares issued and outstanding at May 31, 2016 and 2015	2,035	2,000
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Additional paid-in capital	2,627,183	887,614
Stock payable	65,700	37,500
Accumulated deficit	(4,125,886)	(1,515,587)
Total stockholder's equity (deficit)	(1,430,968)	(588,473)
Total liabilities and stockholders' equity (deficit)	$ 255,256	$ 292,779

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended May 31, 2016	For the Year Ended May 31, 2015
Revenue	$ -	$ -
Cost of goods sold	-	-
Gross margin	-	-
Selling, general and administrative expenses	1,314,225	998,994
Professional fees	955,810	504,354
Total operating expenses	2,270,035	1,503,348
Operating loss	(2,270,035)	(1,503,348)
Other (income) expense:		
Interest expense	402,021	12,239
Change in fair value of derivative	(61,757)	-
Total other expense	340,264	12,239
Income (Loss) before income taxes	(2,610,299)	(1,515,587)
Income tax expense	-	-

Net income (loss)		$ (2,610,299)	$ (1,515,587)
Net income (loss) per share - basic		$ (0.13)	$ (0.24)
Net income (loss) per share - diluted		$ (0.13)	$ (0.24)
Weighted average shares outstanding - basic		20,146,260	6,356,167
Weighted average shares outstanding - diluted		20,146,260	6,356,167

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Amount	Common Stock Value	Additional Paid In Capital	Stock Payable	Accumulated Deficit	Total
Balance at May 31, 2014	-	-	-	-	-	-
Issuance of founders shares	15,000,000	1,500	998,500	-	-	1,000,000
Effect of reverse merger	5,000,003	500	(311,602)	-	-	(311,102)
Imputed interest	-	-	716	-	-	716
Value of vested portion of shares to be issued to a service provider	-	-	-	37,500	-	37,500
Discount on notes payable	-	-	200,000	-	-	200,000
Net loss	-	-	-	-	(1,515,587)	(1,515,587)
Balance, May 31, 2015	20,000,003	2,000	887,614	37,500	(1,515,587)	(588,473)
Stock issued for services	100,000	10	89,840	28,200	-	118,050
Share based compensation	250,000	25	327,475			327,500
Discount on notes from beneficial conversion feature	-	-	1,321,176		-	1,321,176
Imputed interest	-	-	1,078	-	-	1,078
Net loss	-	-	-	-	(2,610,299)	(2,610,299)
Balance, May 31, 2016	20,350,003	2,035	2,627,183	65,700	(4,125,886)	(1,430,968)

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended May 31, 2016	For the Year Ended May 31, 2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (2,610,299)	$ (1,515,587)
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	1,078	716
Change in fair value of derivative	(61,757)	-
Interest expense - excess of discount over principal	11,330	-
Issuance of stock for services	118,050	-
Note issued as commitment	200,000	-
Impairment of note receivable	-	500,000
Stock-based compensation	327,500	37,500
Amortization of debt discounts	286,317	5,556
Depreciation and amortization expense	1,288	-
Changes in assets and liabilities:		
Deposits	-	(50,000)
Prepaid expenses	25,058	(38,955)
Accounts payable and accrued expenses	285,993	136,327
Accrued compensation	161,243	106,250
Due to related parties	(525)	18,455
Accrued interest, related party	64,811	3,337
Accrued interest	38,486	2,630
Net cash used in operating activities	(1,151,427)	(793,771)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of cash for note receivable	-	(500,000)
Payments to acquire equipment	(2,674)	-
Payment for construction in progress	(106,726)	-
Payments to acquire intangible assets	-	(2,158)
Payments for investment in shell company	-	(295,250)
Net cash used in investing activities	(109,400)	(797,408)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	-	1,000,000
Proceeds from related party convertible notes payable	767,500	-
Proceeds from related party notes payable	72,750	600,000
Proceeds from issuance of convertible note	300,000	200,000
Net cash provided by financing activities	1,140,250	1,800,000
Net increase in cash and cash equivalents	(120,577)	208,821
Cash and cash equivalents at beginning of period	208,821	-
Cash and cash equivalents at end of period	$ 88,244	$ 208,821
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Stock issued to founder for intellectual property	$	-	$	500
Discount on notes from beneficial conversion feature and warrants	$	502,296	$	200,000
Discount on related party notes from beneficial conversion feature and warrants	$	1,321,176	$	-
Related party notes payable reclassified as related party convertible notes payable	$	1,367,500	$	-
Effect of reverse merger	$	-	$	16,352

See notes to the consolidated financial statements.

CLS HOLDINGS USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS ORGANIZATION AND NATURE OF OPERATIONS

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 (post Reverse-Split) shares of the Company’s common stock were issued to CLS Labs in exchange for the 10,000,000 shares that it owned by virtue of the above-referenced purchase from Larry Adelt.

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

Operations

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

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 $4,125,886 as of May 31, 2016. Further losses are anticipated in the development of its business raising substantial doubt about the Company’s ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with loans and/or the sale of debt or equity securities. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 - SUMMARY OF 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 Labs, Inc. and CLS Labs Colorado, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

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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 $88,244 and $208,821 as of May 31, 2016 and 2015.

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

Concentrations of Credit Risk

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

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The Company incurred no advertising and marketing costs for the years ended May 31, 2016 and 2015.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $0 and $32,769, respectively for the years ended May 31, 2016 and 2015.

Fair Value of Financial Instruments

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

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

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

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

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

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Derivative Financial Instruments

Derivatives are recorded on the condensed consolidated balance sheet at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheet with changes in fair value recognized during the period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative component of the convertible notes issued on March 18, 2016 (the "2016 Convertible Notes") was valued at issuance and at period end. The following assumptions were used for the valuation of the derivative liability related to the 2016 Convertible Notes:

- The quoted market price of the common stock of $1.06 – $0.88 would fluctuate with the Company's projected volatility;

- The original conversion prices of the 2016 Convertible Notes, which are fixed at $1.07 and $0.80, or upon default/fundamental transaction at 52% of the 20 trading day low Volume Weighted Average Price ("VWAP"), would remain in effect;

- An event of default at 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and in place of a penalty there would be an alternative conversion price;

- The projected volatility curve from an annualized analysis for each valuation period was based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 138% through 161% at issuance, conversion, and at May 31, 2016;

- The Company would redeem the notes (with a 130% prepayment penalty) projected initially at 0% of the time and increasing monthly by 1.0% to a maximum of 10.0% (from alternative financing being available for a redemption event to occur); and

- The holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the registration statement was effective (assumed after 180 days) and the Company was not in default.

Revenue Recognition

The Company applies revenue recognition provisions pursuant to ASC No. 605, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize revenue and provides guidance for disclosure related to revenue recognition policies.

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 May 31, 2016 and 2015, the Company excluded from the calculation of fully-diluted shares outstanding a total of 2,658,441 and 202,630 shares, respectively, issuable upon the conversion of notes payable because the result would have been anti-dilutive.

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

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the year ended May 31, 2016 and 2015.

Income Taxes

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

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which is intended to improve financial reporting in connection with leasing transactions. ASU 2016-02 will require entities ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or finance, while the income statement will reflect lease expense for operating leases and amortization/interest expense for finance leases. The treatment of entities that own the assets leased by lessees ("lessors") will remain largely unchanged from current GAAP. In addition, ASU 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the financial statements. Although the Company is currently evaluating the provisions of ASU 2016-02 to assess the impact on the Company's consolidated financial statements, the primary effect of adopting the new standard will be to record assets and obligations for current operating leases.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740) - *Balance Sheet Classification of Deferred Taxes* ("ASU 2015-17"), which requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified balance sheet. Previous guidance required deferred tax liabilities and assets to be separated into current and noncurrent amounts on the balance sheet. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

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In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): *Simplifying the Measurement of Inventory* ("ASU 2015-11"), which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value, except for companies using the Retail Inventory Method which will continue to use existing impairment models. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09 - *Revenue from Contracts with Customers* ("ASU 2014-09"). This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - *Revenue Recognition* and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and must be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company does not expect the adoption of this standard to have a material impact on the Company's consolidated 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 4 - MERGER WITH CLS LABS

On April 29, 2015, the Company, CLS Labs and CLS Merger, Inc., a Nevada corporation and wholly owned subsidiary of the Company, 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 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 the Company 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.

For financial reporting purposes, the Merger represents a capital transaction of CLS Labs or a "reverse merger" rather than a business combination, because the sellers of CLS Labs controlled the Company immediately following the completion of the Merger. As such, CLS Labs is deemed to be the accounting acquirer in the transaction and, consequently, the transaction is being treated as a recapitalization of CLS Labs. Accordingly, the assets and liabilities and the historical operations reflected in the Company's ongoing financial statements are those of CLS Labs and are recorded at the historical cost basis of CLS Labs. The Company's assets, liabilities and results of operations have been consolidated with the assets, liabilities and results of operations of CLS Labs after consummation of the Merger. The Company's historical capital accounts have been retroactively adjusted to reflect the equivalent number of shares issued by the Company in the Merger while CLS Labs' historical retained earnings have been carried forward. The historical financial statements of the Company before the Merger will be replaced with the historical financial statements of CLS Labs before the Merger in all future filings with the Securities and Exchange Commission, or "SEC". The Merger is intended to be treated as a tax-free exchange under Section 368(b) of the Internal Revenue Code of 1986, as amended.

Pro Forma Results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of CLS Labs had taken place on the first day of the period presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

	Twelve months ended May 31, 2015
Total Revenue	-
Net loss attributable to CLS Holdings USA, Inc.	(2,200,788)
Basic net income (loss) per common share	(0.35)
Diluted net income (loss) per common share	(0.35)
Weighted average shares - basic	6,356,167
Weighted average shares - diluted	6,356,167

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NOTE 5 - PREPAID EXPENSES

Prepaid expenses consist of the following as of May 31, 2016 and 2015:

	May 31, 2016	May 31, 2015
Prepaid legal fee	$ 6,742	$ 3,466
Prepaid consulting fees	-	28,334
Total prepaid expenses	$ 6,742	$ 31,800

NOTE 6 – CONSTRUCTION IN PROGRESS

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

NOTE 7 – SECURITY DEPOSIT

The Company had a security deposit in the amount of $50,000 at May 31, 2016 and 2015. This amount consists of a deposit to secure office and warehouse space.

NOTE 8 - NOTE RECEIVABLE

During the year ended May 31, 2015, the Company loaned $500,000 (the "Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"). Pursuant to the Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016, and May 31, 2016, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing three in the month following the month in which PRH commences generating revenue at the grow facility, which commencement is anticipated to occur in the first quarter of 2017, and continuing until paid in full. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing after such initial payment and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on the five-year anniversary of the initial payment thereunder. In the event of default as defined in the agreements underlying the Note, all amounts under the Note shall become at once due and payable. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000. This receivable is recorded on the balance sheet as of May 31, 2016 and 2015 in the amount of $0, net of allowance in the amount of $500,000 (see note 10).

NOTE 9 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company had accounts payable and accrued liabilities of $431,017 and $145,024 at May 31, 2016 and May 31, 2015, respectively, consist of legal fees, consulting fees and other trade payables.

NOTE 10 - RELATED PARTY TRANSACTIONS

As of May 31, 2016 and 2015, the Company owed the amount of $250,000 and $106,250, respectively, to Jeffrey Binder, its President and Chief Executive Officer, for accrued salary. In July 2016, the amount of $250,000 was transferred from accrued salary to a Convertible Promissory Note due to Mr. Binder (see note 17).

As of May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,290 in accrued compensation on the accompanying consolidated balance sheets.

As of May 31, 2016 and 2015 the Company had amounts due to related parties of $17,930 and $18,455, respectively, representing expenses paid by officers and directors on behalf of the Company. The Company accrued interest at the rate of 6% per annum on these liabilities, and recorded interest expense on these liabilities in the amounts of $1,078 and $716 during the twelve months ended May 31, 2016 and 2015, respectively. These interest accruals were charged to additional paid-in capital.

During the year ended May 31, 2015, three founding shareholders were each issued 5,000,000 (post Reverse Split) common shares for a total of 15,000,000 (post Reverse Split) founder shares. The transaction was valued at $1,000,000. The Company received cash proceeds of $1,000,000 from two shareholders and intellectual property from a third shareholder. Due to the related party nature, no value was assigned to the intellectual property exchanged for stock.

On April 17, 2015, CLS Labs Colorado, Inc. ("CLS Labs Colorado"), a wholly owned subsidiary of CLS Labs, loaned $500,000 (the "Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"), to be used by PRH in connection with the financing of the building out, equipping, and development of a grow facility by PRH that will be operated by a licensed third-party marijuana grower. Pursuant to the Note, as amended by the parties effective June 30, 2015, October 31, 2015, April 11, 2016, and May 31, 2016, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing in the month following the month in which PRH commences generating revenue at the grow facility, which commencement is anticipated to occur in the first quarter of 2017 (the "Payment Date") and continuing until paid in full. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing on the Payment Date and continuing until paid in full. All remaining outstanding principal and any accumulated unpaid interest due under the Note will be due and payable on the fifth anniversary of the Payment Date. In the event of default as defined in the agreements related to the Note, all amounts under the Note shall become at once due and payable. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000. This receivable is recorded on the balance sheet as of May 31, 2016 and 2015, $0, net of a reserve in the amount of $500,000.

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

Additionally, upon Mr. Bonsett's employment on August 1, 2015 to serve as the Company's Chief Operating Officer, he received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement (see note 15).

Related Party Notes Payable

The Company has convertible notes payable and notes payable outstanding to Jeffrey Binder, an officer and director, and to Frank Koretsky, a director (see note 12).

NOTE 11 – DERIVATIVE LIABILITY

In March 2016, the Company entered into convertible note agreements containing beneficial conversion features with Old Main Capital LLC ("Old Main"). One of the features is a ratchet reset provision which reduces the conversion price should the Company issue equity with an effective price per share that is lower than the stated conversion price in the note agreement (see note 12). 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.

During the year ended May 31, 2016, the Company recorded derivative liabilities in the amount of $480,294. The Company revalued these liabilities at May 31, 2016, and recognized a gain on revaluation in the amount of $61,757 during the twelve months ended May 31, 2016, bringing the fair value of the derivative liability to $418,537 as of May 31, 2016.

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NOTE 12 - NOTES PAYABLE

	May 31, 2016	May 31, 2015
Note payable to Jeffrey Binder, an officer and director of the Company, for advances to fund operations (the "Binder Funding Note 1"). The Binder Funding Note 1 bears interest at a rate of 6%, has no maturity date and is due on demand. During the twelve months ended May 31, 2016, Mr. Binder advanced a total of $95,250 to the Company under the Binder Funding Note 1; during the year ended May 31, 2016, $92,500 of this amount was transferred out of the Binder Funding Note 1 and used to fund two new convertible notes payable to Mr. Binder (See Binder Convertible Notes 1 and 2 below). During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $1,308 on the Binder Funding Note 1. In July 2016, the remaining principal balance of $2,750 in the Binder Funding Note 1 was transferred to a new Convertible Note payable to Mr. Binder (the "Binder Convertible Note 3").	$ 2,750	$ -

Notes payable to Frank Koretsky, a director of the Company, for advances to fund operations (the "Koretsky Funding Note 1"). The Koretsky Funding Note 1 bears interest at a rate of 6%, has no maturity date and is due on demand. During the twelve months ended May 31, 2016 and 2015, Mr. Koretsky advanced the amounts of $745,000 and $600,000, respectively (a cumulative total of $1,345,000) to the Company under these notes; during the year ended May 31, 2016, $1,275,000 of this amount was transferred out of these notes in order to fund two new convertible notes payable to Mr. Koretsky in the amounts of $895,000 and $380,000 (see Koretsky Convertible Notes 1 and 2 below). During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $9,174 on this note. In July 2016, the remaining principal balance of $70,000 in the Koretsky Funding Note 1 was transferred to a new Convertible Note payable to Mr. Koretsky (the "Koretsky Convertible Note 3").	70,000	600,000
Total - Notes Payable, Related Parties	$ 72,750	$ 600,000

	May 31 2016	May 31 2015
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Binder Convertible Note 1"). During the year ended May 31, 2016, Mr. Binder made advances to the Company in the aggregate amount of $92,500 (see Binder Funding Notes); $50,000 of this amount was used to fund the Binder Convertible Note 1. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $6,250 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a three-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $50,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $9,599 of this discount was charged to operations. During the twelve months ended May 31, 2016 the Company accrued interest in the amount of $1,151 on this note.	50,000	-
Unsecured convertible note issued to Jeffrey Binder, an officer and director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Binder Convertible Note 2"). During the year ended May 31, 2016, Mr. Binder made advances to the Company in the aggregate amount of $95,250 (see Binder Funding Notes); $42,500 of this amount was used to fund the Binder Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2016 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $5,313 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $37,840 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $7,263 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $773 on this note.	42,500	-

Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated January 12, 2016 and due January 1, 2019 (the "Koretsky Convertible Note 1"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000) pursuant to note payable agreements (see Koretsky Funding Note 1). During the year ended May 31, 2016, $895,000 of this amount was used to fund the Koretsky Convertible Note 1. This note bears interest at the rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Commencing on April 1, 2017, the first of eight principal payments in the amount of $111,875 will be due; subsequent principal payments will due on the first day of each July, October, January, and April until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share (post Reverse-Split). The Company recognized a discount of $895,000 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $171,822 of this discount was charged to operations. During the twelve months ended May 31, 2016 the Company accrued interest in the amount of $20,597 on this note.	895,000	-
Unsecured convertible note issued to Frank Koretsky, a director of the Company, dated April 8, 2016 and due April 1, 2019 (the "Koretsky Convertible Note 2"). During the years ended May 31, 2016 and 2015, Mr. Koretsky made advances to the Company in the amounts of $745,000 and $600,000, respectively (a total of $1,345,000), pursuant to note payable agreements (see Koretsky Funding Notes). During the year ended May 31, 2016, $380,000 of this amount was used to fund the Koretsky Convertible Note 2. This note bears interest at the rate of 6% per annum through February 29, 2016 and 10% per annum thereafter. No payments are required until April 1, 2017, at which time all accrued interest becomes due and payable. Commencing on July 1, 2017, the first of eight principal payments in the amount of $47,500 will be due; subsequent principal payments will due on the first day of each October, January, April, and July until paid in full. This note and accrued interest under the note may be converted, in whole or in part, into one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share (post Reverse-Split). The Company recognized a discount of $338,336 on the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016, $64,939 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $7,100 on this note.	380,000	-
Total – Convertible Notes Payable, Related Parties	$ 1,367,500	-
Less: Discount	(1,114,104)	-
Convertible Notes Payable, Related Parties, Net of Discounts	$ 253,396	-
Convertible Notes Payable, Related Parties, Net of Discounts, Current Portion	$ 22,678	$ -
Convertible Notes Payable, Related Parties, Net of Discounts, Long-term Portion	230,718	-

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	May 31 2016	**May 31 2015**
Convertible promissory note issued to an unaffiliated third party due April 29, 2018 (the "April 2015 Note"). During the twelve months ended May 31, 2015, the lender loaned the Company the amount of $200,000 pursuant to this note. The April 2015 Note bears interest at a rate of 15% per annum. On the first anniversary of this note, the all then accrued interest became due. Thereafter, the Company is required to make eight equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 until paid in full. The note	200,000	200,000

and any accrued unpaid interest is convertible into common stock of the Company. For each dollar converted, the note holder shall receive two shares of common stock and one three-year warrant to purchase 1.33 shares (post Reverse-Split) of common stock at $0.75 per share (post Reverse-Split). The Company recognized a discount of $200,000 on the April 2015 Note related to the value of the beneficial conversion feature at the time of issuance. During the twelve months ended May 31, 2016 and 2015, $66,667 and $222,222 of this discount, respectively, was charged to operations. During the twelve months ended May 31, 2016 and 2015, the Company accrued interest in the amount of $30,082 and $2,630, respectively, on this note.		
Convertible Promissory Note payable to Old Main Capital, LLC ("Old Main") dated March 18, 2016, for the purchase of up to $555,555 in 10% Original Issue Discount Convertible Promissory Notes (the "10% Notes"). During the year ended May 31, 2016, Old Main loaned the Company the amount of $333,332 pursuant to these notes. These notes bear interest at the rate of 10% per annum. Old Main may, at its option, convert all or a portion of the notes and accrued but unpaid interest into shares of common stock at a conversion price of $0.80 per share (post Reverse-Split) (the "Fixed Conversion Price"). The Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the Fixed Conversion Price (the "Base Conversion Price"), other than certain exempt issuances. In such an instance, the Fixed Conversion Price will be lowered to match the Base Conversion Price. The shares underlying the 10% Notes are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after the registration statement is declared effective, the Company must begin to redeem 1/24th of the face amount of the notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payments may be made, at our option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $0.80 or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days immediately prior to the conversion date. The Company recognized a discount of $330,188 on the 10% Notes related to the value of the original issue discount and embedded derivative. During the twelve months ended May 31, 2016, $4,056 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $5,160 on this note.	333,332	-
Convertible promissory note payable to Old Main dated March 18, 2016 and bearing interest at a rate of 8% (the "8% Convertible Note"). The 8% Convertible Note was issued for Old Main's commitment to enter into an equity line transaction with the Company and prepare all of the related transaction documents. Old Main may, at its option, convert all or a portion of the note and accrued but unpaid interest into shares of common stock at a conversion price of $1.07 per share (post Reverse-Split) (the "8% Fixed Conversion Price"). The 8% Fixed Conversion Price is subject to adjustment if, at any time while this note is outstanding, the Company should issue any equity security with an effective price per share that is lower than the 8% Fixed Conversion Price (the "8% Base Conversion Price"), other than certain exempt issuances. In such an instance, the 8% Fixed Conversion Price will be lowered to match the 8% Base Conversion Price. The shares underlying the 8% Note are subject to a registration rights agreement. At the earlier of September 18, 2016 or two trading days after this registration statement becomes effective, the Company must begin to redeem 1/6th of the face amount of the note and any accrued but unpaid interest on a monthly basis. Such amortization payment may be made, at its option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $1.07 (post Reverse-Split) or (b) 75% of the lowest daily volume weighted average price of the common stock in the twenty consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. The Company recognized a discount of $172,108 on the value of the embedded derivative. During the twelve months ended May 31, 2016, $8,522 of this discount was charged to operations. During the twelve months ended May 31, 2016, the Company accrued interest in the amount of $3,244 on this note.	200,000	-
Total - Convertible Notes Payable	$ 733,332	$ 200,000

Less: Discount		(587,910)		(194,444)
Convertible Notes Payable, Net of Discounts	$	145,422	$	5,556
Total - Convertible Notes Payable, Net of Discounts, Current Portion	$	72,525	$	-
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	$	43,312	$	5,556
Discounts on notes payable amortized to interest expense:	$	286,317	$	5,556

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Beneficial Conversion Features

The 2016 Convertible Notes contain conversion features that create derivative liabilities. The pricing model the Company used for determining fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income. The derivative component of the 2016 Convertible Notes was valued at issuance and at period end. The following assumptions were used for the valuation of the derivative liability related to the 2016 Convertible Notes:

- The quoted market price of the common stock of $1.06 – $0.88 would fluctuate with the Company's projected volatility;

- The original conversion prices of the 2016 Convertible Notes, which are fixed at $1.07 and $0.80, or upon default/fundamental transaction at 52% of the 20 trading day low Volume Weighted Average Price ("VWAP"), would remain in effect;

- An event of default at 24% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 10%, and in place of a penalty there would be an alternative conversion price;

- The projected volatility curve from an annualized analysis for each valuation period was based on the historical volatility of the Company and the term remaining for each note. The projected volatility was from 138% through 161% at issuance, conversion, and at May 31, 2016;

- The Company would redeem the notes (with a 130% prepayment penalty) projected initially at 0% of the time and increasing monthly by 1.0% to a maximum of 10.0% (from alternative financing being available for a redemption event to occur); and

- The holder would automatically convert the notes at the maximum of 2 times the conversion price or the stock price if the registration statement was effective (assumed after 180 days) and the Company was not in default.

Certain other of the Company's notes payable contain beneficial conversion features which are not derivatives, but which require valuation in order to determine the discount to the related note payable. The value of these conversion features is calculated using the Black-Scholes valuation model. The following table illustrates certain key information regarding the conversion option valuation assumptions under the Black-Scholes valuation model at May 31, 2016 and 2015:

	May 31,	
	2016	**2015**
Volatility	89% to 107%	214%
Dividends	-	-
Risk-free interest rates	0.91%	0.84% to 1.18%
Term (years)	3	3

NOTE 13 - STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 250,000,000 shares of common stock, par value $0.0001 per share and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 20,350,003 and 20,000,003 shares (post Reverse Split) of common stock issued and outstanding as of May 31, 2016 and 2015, respectively.

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

The Company recorded imputed interest of $1,078 and $716 during the year ended May 31, 2016 and 2015 on related party payables due to a director and officer of the Company.

On August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Mr. Bonsett is entitled to a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, which will become fully vested one year from the effective date of the agreement. The shares were issued on January 19, 2016. The Company valued the shares at $327,500 based on the stock price at August 3, 2015. During the year ended May 31, 2016, the Company recognized $327,500 in share based compensation.

On April 18, 2016, the Company entered into an equity purchase agreement (the "Equity Purchase Agreement") with Old Main providing that, upon the terms and subject to the conditions thereof, Old Main is committed to purchase, on an unconditional basis, shares of common stock (the "Commitment Shares") at an aggregate price of up to $4,000,000 over the course of a 24-month term (the "Equity Line"). From time to time over the 24-month term of the Equity Purchase Agreement, the Company may, in its sole discretion, provide Old Main with a put notice (each, a "Put Notice"), to purchase a specified number of Commitment Shares (each, the "Put Amount Requested"). The actual amount of proceeds the Company receives pursuant to each Put Notice (each, the "Put Amount") will be determined by multiplying the Put Amount Requested by the applicable purchase price. The purchase price of each Commitment Share will equal 80% of the market price of the Company's common stock during the five consecutive trading days immediately following the clearing date associated with the applicable Put Notice.

Common Stock

Twelve months ended May 31, 2016:

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

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

On October 15, 2015, pursuant to a consulting agreement, the Company 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company has have included 20,000 (post Reverse-Split) 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 of the common stock on the grant date.

On December 29, 2015, pursuant to a consulting agreement commencing on January 4, 2016, the Company agreed to issue 25,000 (post Reverse-Split) shares of common stock per month, valued at $21,250 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 the Company's common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, the Company had 50,000 (post Reverse-Split) 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 of the common stock on the grant date.

On January 19, 2016, the Company issued 250,000 restricted shares (post Reverse Split) of common stock with a fair value of $327,500 to its Chief Operating Officer as a signing bonus. The shares vest on August 1, 2016.

Twelve months ended May 31, 2015:

In October 2014, the Company agreed to issue 120,000 (post Reverse Split) shares of restricted common stock to a consultant. These shares vested at a rate of 10,000 (post Reverse Split) shares per month. The stock was valued at $90,000. The agreement was suspended at the end of January 2015 until completion of the Merger and began again in May 2015. During the year ended May 31, 2015, 50,000 (post Reverse Split) shares vested and the Company recognized $37,500 in expenses for the vested shares. As of May 31, 2015 the Company had $37,500 included in stock payable on the accompanying balance sheet. Subsequent to May 31, 2015, the Company and the consultant agreed to terminate the agreement.

During the year ended May 31, 2015, three founding shareholders were each issued 5,000,000 (post Reverse Split) shares of common stock for a total of 15,000,000 (post Reverse Split) founder shares. The transaction was valued at $1,000,000. The Company received cash proceeds of $1,000,000 from two shareholders and intellectual property from the third shareholder. Due to the related party nature, no value was assigned to the intellectual property exchanged for the stock.

On April 29, 2015, a net amount of 5,000,003 shares (post Reverse-Split) of Common Stock were issued pursuant to the Merger Agreement (Note 1) in accordance with the financial accounting treatment for a Reverse Merger. These shares of common stock represent the shares issued to the Company's shareholders other than the former shareholders of CLS Labs, Inc. prior to the Merger.

NOTE 14 – INCOME TAXES

The Company accounts for income taxes under FASB ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

As of May 31, 2016 and 2015, the Company had incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets.

The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	May 31, 2016	May 31, 2015
Federal and state statutory rate	34%	34%
Net operating loss carry forwards	787,513	500,417
Valuation allowance for deferred tax assets	(787,513)	(500,417)

Net deferred tax assets	-	-

As of May 31, 2016 and 2015, the Company had net operating loss carry forwards of approximately $787,513 and $500,417 available to offset future taxable income. The net operating loss carry forwards, if not utilized, will begin to expire in 2036.

Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at May 31, 2016 and 2015. The Company had no uncertain tax positions as of May 31, 2016.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Lease Arrangement

The Company, through CLS Labs Colorado, leases 42,392 square feet of warehouse and office space (the "Leased Space") in a building located on 1.92 acres in Denver Colorado. CLS Labs Colorado subleases the Leased Space to Picture Rock Holdings, LLC as part of an arrangement whereby Picture Rock Holdings, LLC and its affiliate will conduct certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, as permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. Total expense for the lease was $177,844 and $0 for the year ended May 31, 2016 and 2015.

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Future annual minimum base rental payments for the lease as of May 31, 2016 are approximately as follows:

For the 12 months ended May 31,	
2017	177,845
2018	177,845
2019	177,845
2020	177,845
2021	148,202
Thereafter	-
Total	859,582

Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman, President and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. On April 28, 2015, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the Merger, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. Mr. Binder continues to receive an annual salary of $150,000 from CLS Labs for serving as its Chairman, President and Chief Executive Officer. My Binder deferred all of the salary payable to him under his employment agreement through May 31, 2016. On July 20, 2016, the Company issued Mr. Binder a convertible note in exchange for $250,000 in deferred salary, among other amounts owed to Mr. Binder by the Company. As of May 31, 2016 and 2015, the Company had accrued compensation due to Mr. Binder in the amount of $250,000 and $106,250.

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett is received a one-time signing bonus of 250,000 (post Reverse-Split) shares of restricted common stock of the Company, with a fair value of $327,500, which became fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement, as discussed in Note 10.

At May 31, 2016, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,290 in accrued compensation on the accompanying consolidated balance sheets.

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the Company's derivative financial liabilities that are recorded at fair value on a recurring basis at May 31, 2016 and 2015.

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

	May 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

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

Liabilities Measured at Fair Value	**Derivative Liability**
Balance as of May 31, 2015	$ -
Issuances	480,294
Revaluation gain	61,757
Balance as of May 31, 2016	$ $ 418,537

NOTE 17 - SUBSEQUENT EVENTS

During July 2016, convertible promissory notes in favor of Mr. Koretsky and Mr. Binder were finalized. These notes represented deferred salary of $250,000 due to Mr. Binder and prior advances in the amount of $12,750 from Mr. Binder and $210,000 from Mr. Koretsky being reclassified as convertible notes payable. These notes are unsecured and bear interest at the rate of 10% per annum. No payments are required until July 1, 2017, at which time all accrued interest becomes due and payable. Principal will be paid in eight equal quarterly installments, together with accrued interest, beginning on October 1, 2017. At the note holder's election, at any time prior to payment or prepayment of the loans in full, all principal and accrued interest under the loans may be converted, in whole or in part, into the Company's securities. Upon such an election, the holder will receive one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share.

On August 3, 2016 the Company issued a convertible promissory note with a face amount of $150,000 to CLS CO 2016. This note is unsecured and bears interest at the rate of 15% per annum. All interest accruing during the first year will be added to principal. Commencing on November 1, 2017, principal will be payable in four equal quarterly installments, together with accrued interest. At the note holder's election, at any time prior to payment or prepayment of the loan in full, all principal and accrued interest under the loan may be converted, in whole or in part, into the Company's securities. Upon such an election, the holder will receive one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

- 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.

Item 9B. Other Information.

None.

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 or operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Recently Issued Accounting Standards

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-10, "Development Stage Entities". The amendments in this update remove the definition of a development stage entity from the Master Glossary of the ASC thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and stockholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments in this update are applied retrospectively. The adoption of ASU 2014-10 removed the development stage entity financial reporting requirements from the Company.

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance requires that share-based compensation that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards and that could be achieved after an employee completes the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on our financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-10: Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation, to improve financial reporting by reducing the cost and complexity associated with the incremental reporting requirements of development stage entities. The amendments in this update remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, thereby improving financial reporting by eliminating the cost and complexity associated with providing that information. The amendments in this Update also eliminate an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The amendments to eliminate that exception simplify U.S. GAAP by reducing avoidable complexity in existing accounting literature and improve the relevance of information provided to financial statement users by requiring the application of the same consolidation guidance by all reporting entities. The elimination of the exception may change the consolidation analysis, consolidation decision, and disclosure requirements for a reporting entity that has an interest in an entity in the development stage. The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public companies, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The adoption of ASU 2014-10 is not expected to have a material impact on our financial position or results of operations.

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.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

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

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors

CLS Holdings USA, Inc.

We have audited the accompanying consolidated balance sheets of CLS Holdings USA, Inc. as of May 31, 2015 and 2014, and the related consolidated statements of operations, changes in shareholders' equity (deficit), and cash flows for the year ended May 31, 2015 and the period from inception (May 1, 2014) to May 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CLS Holdings USA, Inc. as of May 31, 2015 and 2014, and the results of its operations, changes in shareholders' deficit and cash flows for the periods described above in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC
www.mkacpas.com
Houston, Texas
August 28, 2015

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CLS HOLDINGS USA, INC.
CONSOLIDATED BALANCE SHEETS

	May 31 2015	May 31 2014
ASSETS		
Current assets		
Cash and cash equivalents	$ 208,821	$ -
Prepaid expenses	31,800	-
Note receivable, current, net of allowance of $100,000	-	-
Total current assets	240,621	-
Security deposit	50,000	-
Note receivable, noncurrent, net of allowance of $400,000	-	-
Intangible assets, net	2,158	-
Total assets	$ 292,779	$ -
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 145,024	$ -
Accrued compensation, related party	106,250	-
Due to related party	18,455	-
Accrued interest	2,630	-
Accrued interest, related party	3,337	-
Notes payable, related party	600,000	-
Total current liabilities	875,696	-
Noncurrent liabilities		
Convertible notes payable, net of debt discount	5,556	-
Total Liabilities	881,252	-
Commitments and contingencies	-	-
Stockholder's equity		
Common stock, $0.0001 par value; 250,000,000 shares authorized; 20,000,003 and zero shares issued and outstanding at May 31, 2015 and 2014	2,000	-
Additional paid-in capital	887,614	-
Stock payable	37,500	-
Accumulated deficit	(1,515,587)	-
Total stockholder's equity	(588,473)	-

Total liabilities and stockholders' equity	$ 292,779	$ -

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended May 31, 2015	For the Period May 1, 2014 (Inception) Through May 31, 2014
Revenue	$ -	$ -
Cost of goods sold	-	-
Gross margin	-	-
Selling, general and administrative expenses	998,994	-
Professional fees	504,354	-
Total operating expenses	1,503,348	-
Operating loss	(1,503,348)	-
Other (income) expense:		
Interest expense	12,239	-
Total other expense	12,239	-
Income (Loss) before income taxes	(1,515,587)	-
Income tax expense	-	-
Net income (loss)	$ (1,515,587)	$ -
Net income (loss) per share - basic	$ (0.24)	$ -
Net income (loss) per share - diluted	$ (0.24)	$ -
Weighted average shares outstanding - basic	6,356,167	-
Weighted average shares outstanding - diluted	6,356,167	-

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Amount	Value	Additional Paid In Capital	Stock Payable	Accumulated Deficit	Total
Balance, May 1, 2014 (inception)	-	-	-	-	-	-
Net loss	-	-	-	-	-	-
Balance at May 31, 2014	-	-	-	-	-	-
Issuance of founders shares	15,000,000	1,500	998,500	-	-	1,000,000
Effect of reverse merger	5,000,003	500	(311,602)	-	-	(311,102)
Imputed interest	-	-	716	-	-	716
Value of vested portion of shares to be issued to a service provider	-	-	-	37,500	-	37,500
Discount due to beneficial conversion feature and warrants	-	-	200,000	-	-	200,000
Net loss	-	-	-	-	(1,515,587)	(1,515,587)
Balance, May 31, 2015	20,000,003	2,000	887,614	37,500	(1,515,587)	(588,473)

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended May 31 2015	For the Period May 1, 2014 (Inception) Through May 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (1,515,587)	$ -
Adjustments to reconcile net loss to net cash used in operating activities:		
Imputed interest	716	-
Impairment of note receivable	500,000	-
Stock-based compensation	37,500	-
Amortization of debt discount	5,556	-
Changes in assets and liabilities:		
Deposits	(50,000)	-
Prepaid expenses	(38,955)	-
Accounts payable and accrued expenses	136,327	-
Accrued compensation, related party	106,250	-
Due to related parties	18,455	-
Accrued interest, related party	3,337	-
Accrued interest	2,630	-
Net cash used in operating activities	(793,771)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment of cash for note receivable	(500,000)	-
Payments to acquire intangible assets	(2,158)	-
Payments for investment in shell company	(295,250)	-
Net cash used in investing activities	(797,408)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common stock	1,000,000	-
Proceeds from related party note	600,000	-
Proceeds from issuance of convertible note	200,000	-
Net cash provided by financing activities	1,800,000	-
Net increase in cash and cash equivalents	208,821	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	$ 208,821	$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Discount due to beneficial conversion feature and warrants	$ 200,000	$ -
Stock issued to founder for intellectual property	$ 500	$ -
Effect of reverse merger	$ 16,352	$ -

See notes to the consolidated financial statements.

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CLS HOLDINGS USA, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BUSINESS ORGANIZATION AND NATURE OF OPERATIONS

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 operations.

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, and Michael Abrams, the Chief Operating Officer of CLS Labs, was appointed the Chief Operating Officer of Adelt. 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.

The Merger

CLS Labs was originally incorporated in the state of Nevada on May 1, 2014 under the name RJF Labs, Inc. RJF Labs, Inc. changed its name to CLS Labs, Inc. on October 24, 2014.

On April 29, 2015, the Company, CLS Labs and CLS Merger Inc., a Nevada corporation and wholly owned subsidiary of CLS Holdings, entered into an Agreement and

Plan of Merger (the "Merger Agreement") and completed a merger, whereby CLS Merger Inc. merged with and into CLS Labs, with CLS Labs remaining as the surviving entity (the "Merger"). Upon the consummation of the Merger, the shares of the common stock of CLS Holdings owned by CLS Labs were extinguished and the stockholders of the Company 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 our previous business.

For financial reporting purposes, the Merger represents a capital transaction of CLS Labs or a "reverse merger" rather than a business combination, because the sellers of CLS Labs controlled the Company immediately following the completion of the Merger. As such, CLS Labs is deemed to be the accounting acquirer in the transaction and, consequently, the transaction is being treated as a recapitalization of CLS Labs. Accordingly, the assets and liabilities and the historical operations that will be reflected in the Company's ongoing financial statements will be those of CLS Labs and will be recorded at the historical cost basis of CLS Labs. The Company's assets, liabilities and results of operations will be consolidated with the assets, liabilities and results of operations of CLS Labs after consummation of the Merger. The Company's historical capital accounts will be retroactively adjusted to reflect the equivalent number of shares issued by the Company in the Merger while CLS Labs' historical retained earnings will be carried forward. The historical financial statements of the Company before the Merger will be replaced with the historical financial statements of CLS Labs before the Merger in all future filings with the Securities and Exchange Commission, or "SEC". The Merger is intended to be treated as a tax-free exchange under Section 368(b) of the Internal Revenue Code of 1986, as amended.

Operations

The Company has 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. Internal testing of this extraction method and conversion process has revealed that it produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace. The Company has not commercialized its proprietary process or otherwise earned any revenues. The Company plans to generate revenues through licensing, fee-for-service and joint venture arrangements related to its proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

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 $1,515,587 as of May 31, 2015. Further losses are anticipated in the development of its business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with loans and/or the sale of common stock. 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 - SUMMARY OF 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 Labs, Inc. and CLS Labs Colorado, Inc. All material intercompany transactions have been eliminated upon consolidation of these entities.

Use of Estimates

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

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Company had cash and cash equivalents of $208,821 and $0 as of May 31, 2015 and 2014.

Concentrations of Credit Risk

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

Advertising and Marketing Costs

Advertising and marketing costs are expensed as incurred. The Company incurred no advertising and marketing costs for the year ended May 31, 2015 and for the period from inception (May 1, 2014) to May 31, 2014.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $32,769 and $0 for the years ended May 31, 2015 and 2014, respectively.

Fair Value of Financial Instruments

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

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

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

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

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

Revenue Recognition

The Company applies the revenue recognition provisions pursuant to ASC No. 605, Revenue Recognition, which provides guidance on the recognition, presentation and disclosure of revenue in financial statements filed with the SEC. The guidance outlines the basic criteria that must be met to recognize the revenue and provides guidance for disclosure related to revenue recognition policies.

Basic and Diluted Per Share

Basic net earnings per share is based on the weighted average number of shares outstanding during the period, while fully-diluted net earnings per share is based on the weighted average number of shares of common stock and potentially dilutive securities assumed to be outstanding during the period using the treasury stock method. Potentially dilutive securities consist of options and warrants to purchase common stock, and convertible debt. Basic and diluted net loss per share is computed based on the weighted average number of shares of common stock outstanding during the period.

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

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the year ended May 31, 2015 and for the period from May 1, 2014 (inception) through May 31, 2014.

Income Taxes

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

Commitments and Contingencies

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

The FASB has issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and should be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. The Company has not yet determined the effect of the adoption of this standard and it is expected to have an immaterial impact on the Company's consolidated financial statements.

On June 19, 2014, the Company adopted the amendment to (Topic 718) Stock Compensation: Accounting for Share-Based Payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The amendment for accounting for share based payments, when an award provides that a performance target that affects vesting could be achieved after an employee completes the requisite service period shall be accounted for as a performance condition. The performance target shall not be reflected in estimating the fair value of the award at the grant date, and compensation cost shall be recognized in the period in which it becomes probable that the performance target will be achieved and will represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost shall be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period shall reflect the number of awards that are expected to vest and shall be adjusted to reflect the awards that ultimately vest. The Company does not believe the accounting standards currently adopted will have a material effect on the accompanying condensed 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 4 - MERGER WITH CLS LABS

On April 29, 2015, the Company, CLS Labs and CLS Merger, Inc., a Nevada corporation and wholly owned subsidiary of the Company, 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 stockholders of CLS

Labs were issued an aggregate of 15,000,000 (post Reverse Split) shares of common stock in the Company 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.

Pro Forma Results

The following tables set forth the unaudited pro forma results of the Company as if the acquisition of CLS Labs had taken place on the first day of the periods presented. These combined results are not necessarily indicative of the results that may have been achieved had the companies always been combined.

	Twelve months ended May 31, 2015
Total Revenue	-
Net loss attributable to CLS Holdings USA, Inc.	(2,200,788)
Basic net income (loss) per common share	(0.35)
Diluted net income (loss) per common share	(0.35)
Weighted average shares - basic	6,356,167
Weighted average shares - diluted	6,356,167

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NOTE 5 - PREPAID EXPENSES

Prepaid expenses consist of the following as of May 31, 2015 and 2014:

	May 31, 2015	May 31, 2014
Prepaid legal fee	$ 3,466	$ -
Prepaid consulting fees	28,334	-
Total prepaid expenses	$ 31,800	$ -

NOTE 6 - NOTE RECEIVABLE

On April 17, 2015, CLS Labs Colorado, Inc., a wholly owned subsidiary of the Company, loaned $500,000 (the "Note") to Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH") to be used by PRH in connection with the financing of the building out, equipping, and development of a grow facility by PRH that will be operated by a licensed third-party marijuana grower. Pursuant to the Note, as amended by the parties effective June 30, 2015, PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing three (3) months after a certificate of occupancy is issued with respect to the grow facility (the "CO Date") and continuing until paid in full. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing on the CO Date and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on the five-year anniversary of the CO Date. In the event of default as defined in the agreements underlying the Note, all amounts under the Note shall become at once due and payable. During the year ended May 31, 2015, the Company recorded an impairment related to the note receivable in the amount of $500,000. This receivable is recorded on the balance sheet as of May 31, 2015 in the amount of $0, net of allowance in the amount of $500,000.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities of $145,024 at May 31, 2015 consist of legal fees and other trade payables. The Company had no accounts payable or accrued liabilities at May 31, 2014.

NOTE 8 - RELATED PARTY TRANSACTIONS

As of May 31, 2015 the Company had related party payables in the amount of $18,455 due to directors and officers of the Company for expenses paid on behalf of the Company. The Company recorded imputed interest of $716 during the year end May 31, 2015 on $17,930 of the $18,455 due to a director and officer of the Company.

As of May 31, 2015, the Company had accrued compensation in the amount of $106,250 due to Jeffrey Binder pursuant to his employment agreement, as amended. Mr. Binder has deferred all salary since the commencement of the agreement.

During the year ended May 31, 2015, three founding shareholders were each issued 5,000,000 (post Reverse Split) common shares for a total of 15,000,000 (post Reverse Split) founder shares. The transaction was valued at $1,000,000. The Company received cash proceeds of $1,000,000 from two shareholders and intellectual property from a third shareholder. Due to the related party nature, no value was assigned to the intellectual property exchanged for stock.

During the year ended May 31, 2015, the Company borrowed $600,000 from Frank Koretsky, a director of the Company, to fund operations. This loan is unsecured, due not less than one year after the date of the loan, and bears interest at a rate of 6% per annum. As of May 31, 2015, the outstanding principal balance was $600,000 and the Company had accrued interest in the amount of $3,337. The balance of the loan terms have not yet been finalized.

On April 17, 2015, prior to Alan Bonsett's appointment as Chief Operating Officer, the Company, through CLS Colorado, entered into an arrangement with PRH (the "Colorado Arrangement") to, among other things, (i) license its proprietary technology, methods and processes to PRH in Colorado in exchange for a fee; (ii) sub-lease warehouse and office space in Denver, Colorado to PRH where PRH can grow, extract and process cannabis and other plant products in exchange for lease payments totaling an aggregate of $1,067,067 over a seventy-two (72) month term; (iii) build a processing facility and lease such facility, including equipment, to PRH in exchange for a monthly fee; and (iv) loan $500,000 to PRH to be used by PRH in connection with its financing of the building out, equipping, and development of a marijuana grow facility. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement. Because construction of the Grow Facility is not yet complete, the business to be operated by PRH pursuant to the Colorado Arrangement has not yet produced revenues.

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NOTE 9 - NOTES PAYABLE

Convertible Note

On April 29, 2015, the Company issued a convertible note to an unaffiliated individual (the "Holder") in the amount of $200,000 (the "Convertible Note"). Interest accrues on the Convertible Note at a rate of 15% per annum. On the first anniversary of the Convertible Note, the Company shall pay all then accrued interest. Thereafter, the

Company shall make eight (8) equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 and continuing on the same day of each October, January, April and July thereafter until paid in full. All outstanding principal and any accumulated unpaid interest thereon shall be due and payable on the third anniversary of note.

The Holder has the right but not the obligation to make additional loans to the Company (the "Subsequent Loans"), in tranches of $200,000 each, until the earlier of October 29, 2015 or until the Holder has made loans to Company that in the aggregate equal $1,000,000. The Holder shall provide the Company with not less than five (5) business days' notice of its desire to make a Subsequent Loan and the Company shall accept such Subsequent Loan and execute a promissory note, in the form of, and at the interest rate set forth in, the Convertible Note evidencing such Subsequent Loan.

At the Holder's election, at any time prior to payment or prepayment of the Convertible Note in full, all principal and accrued interest under the Convertible Note may be converted in whole, but not in part, into shares of common stock of Company. For each dollar converted, the Holder shall receive two shares of common stock and a three-year warrant to purchase 1.33 shares (post Reverse Split) of common stock at $0.75 per share (post Reverse Split).

As of May 31, 2015 the outstanding principal balance on the Convertible Note was $200,000 and the Company had accrued interest in the amount of $2,630 on this note.

Beneficial Conversion Feature of Convertible Note

The Company calculated the fair value of the beneficial conversion features embedded in the Convertible Note via the intrinsic value method. The Company also calculates the fair value of the detachable warrants offered with the Convertible Note via the Black-Scholes valuation method. The value of the conversion feature and the detachable warrants are considered discounts to the Convertible Note, to the extent the aggregate value of the warrants and conversion features did not exceed the face value thereof. These discounts were amortized to interest expense over the term of the Convertible Note.

The Company recorded a discount to the Convertible Note in the amount of $200,000. The discount was comprised of $100,000 related to the beneficial conversion feature embedded in the Convertible Note and $100,000 for the detachable warrants. During the year ended May 31, 2015 the Company amortized $5,556 of this discount to interest expense. As of May 31, 2015, the Company had unamortized discount on the Convertible Note in the amount of $194,444.

Koretsky Note

During the year ended May 31, 2015, the Company borrowed $600,000 from Frank Koretsky, a director of the Company, to fund operations. This loan is unsecured, due not less than one year after the date of the loan, and bears interest at a rate of 6% per annum. As of May 31, 2015 the outstanding principal balance was $600,000 and the Company had accrued interest in the amount of $3,337. The balance of the loan terms have not yet been finalized.

NOTE 10 - STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 250,000,000 shares of common stock, par value $0.0001 per share and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 20,000,003 and zero shares (post Reverse Split) of common stock issued and outstanding as of May 31, 2015 and 2014, respectively.

Effective December 10, 2014, the Company effected a reverse stock split of its common stock then issued and outstanding at a ratio of 1-for-0.625. A total of 18,000,000 shares of common stock were outstanding immediately prior to the reverse split, and a total of 11,250,000 shares of common stock were outstanding after the reverse stock split.

During the year ended May 31, 2015, three founding shareholders were each issued 5,000,000 (post Reverse Split) shares of common stock for a total of 15,000,000 (post Reverse Split) founder shares. The transaction was valued at $1,000,000. The Company received cash proceeds $1,000,000 from two shareholders and intellectual property from a third shareholder. Due to the related party nature, no value was assigned to the intellectual property exchanged for stock.

On April 29, 2015, a net amount of 5,000,003 shares (post Reverse-Split) of Common Stock were issued pursuant to the Merger Agreement (Note 1) in accordance with the financial accounting treatment for a Reverse Merger. These shares of Common Stock represent the shares issued to the Company's shareholders other than the former shareholders of CLS Labs, Inc. prior to the Merger.

The Company recorded a discount on its Convertible Note (Note 9) in the amount of $200,000. The discount was comprised of $100,000 related to the beneficial conversion feature embedded in the Convertible Note and $100,000 for the detachable warrants.

The Company recorded imputed interest of $716 during the year end May 31, 2015 on $17,930 due to a director and officer of the Company.

Restricted Stock Agreements

In October 2014, the Company agreed to issue 120,000 (post Reverse Split) shares of restricted common stock to a consultant. These shares vest at a rate of 10,000 (post Reverse Split) shares per month. The stock was valued at $90,000. The agreement was suspended at the end of January 2015 until completion of the Merger and began again in May 2015. During the year ended May 31, 2015, 50,000 (post Reverse Split) shares vested and the Company recognized $37,500 in expenses for the vested shares. As of May 31, 2015 the Company has $37,500 included in stock to be issued on the accompanying balance sheet. Subsequent to May 31, 2015, the Company and consultant agreed to terminate the agreement.

NOTE 11 - INCOME TAXES

The Company accounts for income taxes under FASB ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

As of May 31, 2015, the Company had incurred a net operating loss and, accordingly, no provision for income taxes has been recorded. In addition, no benefit for income taxes has been recorded due to the uncertainty of the realization of any tax assets.

The tax effects of the temporary differences that give rise to the Company's estimated deferred tax assets and liabilities are as follows:

	May 31, 2015	May 31, 2014
Federal and State Statutory Rate	35%	35%
Net operating loss carry forwards	500,417	-
Valuation allowance for deferred tax assets	(500,417)	-
Net deferred tax assets	-	-

As of May 31, 2015 and 2014, the Company had net operating loss carry forwards of approximately $500,417 and $0 available to offset future taxable income. The net operating loss carry forwards, if not utilized, will begin to expire in 2035.

Based on the available objective evidence, including the Company's history of losses, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at May 31, 2015. The Company had no uncertain tax positions as of May 31, 2015.

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NOTE 12 - COMMITMENTS AND CONTINGENCIES

Lease Agreement

On April 17, 2015, the Company entered into an arrangement (the "Colorado Arrangement"), through its wholly owned subsidiary, CLS Labs Colorado, Inc., a Florida corporation ("CLS Labs Colorado"), via a number of agreements with certain Colorado entities, including the following:

i. a Licensing Agreement with Picture Rock Holdings, LLC, a Colorado limited liability company ("PRH"), whereby, in exchange for a license fee payable over the ten (10) year term of the agreement, CLS Labs Colorado granted to PRH an exclusive license for the State of Colorado of certain proprietary inventions and formulas relating to the extraction from, separation and processing (the "Process") of marijuana to produce certain marijuana-infused products, including edibles, e-liquids, waxes and shatter (the "Products"), and to practice and use the Process in conjunction with the manufacture, production, sale, and distribution of the Products. Pursuant to the Licensing Agreement, if during its term applicable state and local laws change to permit, in whole or in part, the ownership or issuance of a marijuana-infused products license in Colorado (a "MIP License"), directly or indirectly, by or to a person or entity who is not a Colorado resident, CLS Labs Colorado has the option to demand the transfer of up to a fifty six percent (56%) ownership interest in the MIP Licenses owned by PRH to CLS Labs Colorado or its designees in exchange for a proportionate reduction in license fees.

ii. an Industrial Lease Agreement (the "Lease") with Casmir-Quince, LLC, a Colorado limited liability company, whereby CLS Labs Colorado leased 14,392 square feet of warehouse and office space (the "Leased Real Property") in a building in Denver, Colorado where certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, are permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. The Lease has an initial term of seventy-two (72) months and provides CLS Labs Colorado with two options to extend the term of the lease by up to an aggregate of ten (10) additional years.

iii. a Sublease Agreement with PRH (the "Sublease"), thereby subletting the entire Leased Real Property to PRH. The term of the Sublease is the same as the Lease and PRH is required to pay CLS Labs Colorado monthly rent equal to the total rent due under the Lease for the corresponding month.

iv. an Equipment Lease Agreement (the "Equipment Lease") with PRH, whereby, in exchange for a lease payment, CLS Labs Colorado agreed to commence building a fully equipped lab at the Leased Real Property, including purchasing all equipment necessary to extract, convert and provide quality control of all cannabis products of PRH. The Equipment Lease terminates upon the earlier of ten (10) years from its effective date or such earlier date upon which the Lease is terminated. PRH has the option to renew the Equipment Lease for a period of five (5) years, or such lesser period as remains under the Lease at the time of the renewal. If during the term of the Equipment Lease applicable state and local laws change to permit, in whole or in part, the ownership or issuance of an MIP License, directly or indirectly, by or to a person or entity who is not a Colorado resident, CLS Labs Colorado has the option to demand the transfer of up to a fifty six percent (56%) ownership interest in the MIP Licenses owned by PRH to CLS Labs Colorado or its designees in exchange for a proportionate reduction in lease payments.

v. a promissory note (the "Note") pursuant to which CLS Labs Colorado loaned Five Hundred Thousand Dollars ($500,000) to PRH to be used by PRH in connection with the financing of the building out, equipping, and development of the Grow Facility by PRH that will be operated by a licensed third-party marijuana grower. PRH will repay the principal due under the Note in twenty (20) equal quarterly installments of Twenty Five Thousand Dollars ($25,000) commencing on July 1, 2015 and continuing until paid in full. Interest will accrue on the unpaid principal balance of the Note at the rate of twelve percent (12%) per annum and will be paid quarterly in arrears commencing on July 1, 2015 and continuing until paid in full. All outstanding principal and any accumulated unpaid interest due under the Note is due and payable on April 1, 2020.

Effective June 30, 2015, CLS Labs Colorado and PRH agreed to defer all payments due from PRH to CLS Labs Colorado pursuant to the Note and Licensing Agreement until three months after the development of the Grow Facility is complete and a certificate of occupancy has been issued.

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Consulting Agreements

In September 2014, the Company entered into a three month consulting agreement at a monthly rate of $25,000 which commenced upon completion of the Merger. During the year ended May 31, 2015 the Company paid $25,000 under this agreement.

In October 2014, the Company entered into a one year consulting agreement. During the year ended May 31, 2015 the Company paid a retainer of $80,000 and an additional $35,000 for meeting certain milestones. The Company is amortizing the retainer over the term of the consulting agreement. During the year ended May 31, 2015 the Company recognized $91,667 in expense related to this agreement.

In October 2014, the Company entered into a one year consulting agreement for investor relations. The Company pays a monthly fee of $6,000 at the beginning of each month and awarded 120,000 (post Reverse Split) shares of restricted common stock that vests at a rate of 10,000 (post Reverse Split) shares per month. The agreement was suspended at the end of January 2015 until completion of the Merger and began again in May 2015. During the year ended May 31, 2015, the Company paid $37,500 under this agreement and 50,000 (post Reverse Split) shares vested. As of May 31, 2015 the Company has $37,500 included in stock to be issued on the accompanying balance sheet. Subsequent to May 31, 2015 the Company and consultant agreed to terminate the agreement.

NOTE 13 - EMPLOYMENT AGREEMENTS

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman, President and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million.

On April 28, 2015, Mr. Binder, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed to, in addition to his obligations to CLS Labs, serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to Mr. Binder with respect to annual salary and annual stock options, as referenced above. As of May 31, 2015, Mr. Binder had deferred all compensation payable pursuant to the agreement.

CLS Labs and Michael Abrams entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Abrams served as CLS Labs' Chief Operating Officer and earned an annual salary of $150,000. Under the agreement, Mr. Abrams was also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Abrams was entitled to a one-time signing bonus of 250,000 shares of common stock of CLS Labs.

On April 28, 2015, Mr. Abrams, CLS Labs and the Company entered into an addendum to Mr. Abrams's employment agreement whereby Mr. Abrams agreed to, in addition to his obligations to CLS Labs, serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs with respect to Mr. Abrams' annual salary and annual stock options, as referenced above, and agreed to issue Mr. Abrams 250,000 (post Reverse Split) shares of the Company's common stock in lieu of CLS Labs' signing bonus, in exchange for Mr. Abrams serving as its Chief Operating Officer.

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NOTE 14 - SUBSEQUENT EVENTS

The Company and Michael Abrams mutually agreed to terminate the employment agreement dated October 1, 2014 between RJF Labs, Inc. (now known as CLS Labs, Inc.) and Mr. Abrams, as amended, effective September 1, 2015. The Company and Mr. Abrams agreed that Mr. Abrams would resign as Chief Operating Officer effective as of August 15, 2015 and serve as consultant to the Company after his employment terminated on September 1, 2015. The parties further agreed that neither party would have any further obligations under the Employment Agreement as of such date.

Effective August 1, 2015, the Company and Alan Bonsett entered into a five-year employment agreement. Pursuant to the agreement, Mr. Bonsett commenced serving as the Company's Chief Operating Officer on August 15, 2015. Under the agreement, Mr. Bonsett is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the Company's annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of the Company's common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, Mr. Bonsett is entitled to a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, which will become fully vested one year from the effective date of the agreement. Mr. Bonsett, as an owner of PRH, will indirectly receive the benefits of the Colorado Arrangement, as discussed in Note 8. Because construction of the Grow Facility is not yet complete, the business to be operated by PRH pursuant to the Colorado Arrangement has not yet produced revenues.

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

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

There have been no disagreements regarding accounting and financial disclosure matters with our independent certified public accountants.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

SCHEDULE “B”

MD&A OF THE COMPANY

[See attached.]

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

OVERVIEW AND OUTLOOK

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

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

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

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including PRH. Recently, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined when we will pursue it again. Instead, we plan to pursue other revenue producing opportunities, including the Acquisition Agreement with Alternative Solutions, as described below, in other states through the acquisition of cannabis and other complementary companies. We recently received a Notice of Allowance from the U.S. Patent and Trademark Office with respect to our patent application for our proprietary extraction and conversion methodology. We have not yet commercialized our proprietary process and have not earned any revenues.

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

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

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On January 4, 2018, the Attorney General of the United States issued new written guidance concerning the enforcement of federal laws relating to marijuana. The Attorney General's memorandum stated that previous DOJ guidance specific to marijuana enforcement, including the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, the "Cole Memo") is unnecessary and is rescinded, effective immediately. The Cole Memo told federal prosecutors that in states that had legalized marijuana, they should use their prosecutorial discretion to focus not on businesses that comply with state regulations, but on illicit enterprises that create harms like selling drugs to children, operating with criminal gangs, and selling across state lines. In addition, since 2014, the federal budget has prohibited the DOJ from using federal funds to prosecute medical cannabis businesses pursuant to a budget rider, which must be renewed annually and is presently set to expire on January 19, 2018. The Attorney General has now advised that it will be left to the discretion of the local US attorneys in the various districts to decide how and when to enforce the federal marijuana laws. As a result of the Attorney General's recent guidance, it is unclear whether and how US attorneys in states with medical and/or recreational marijuana laws will enforce federal laws relating to the prohibition of the possession, ownership or sale of marijuana, among other things. It is also unclear whether any states will challenge the Attorney General's new pronouncement in the applicable courts. However, as a result of the Attorney General's new guidance, some banks, clearing brokers and other businesses may cease or limit how they do business with companies in the marijuana business to avoid a possible violation of federal law. It is also possible that some US attorneys may begin enforcing federal laws to prevent marijuana businesses that are otherwise validly operating under state laws, from conducting business. Thus, regardless of whether the Attorney General's new pronouncement is enforced or found to be lawful, it could have a material adverse impact on the marijuana industry, including our business.

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

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

Revenues

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

General and administrative expenses

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

Professional fees

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

Interest expense

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

Change in fair value of derivative liability

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

Net loss

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

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

Revenues

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

General and administrative expenses

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

Professional fees

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

Interest expense

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

Change in fair value of derivative liability

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

Gain on settlement of debt

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

Loss on modification of debt

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

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Loss on note exchange

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

Loss on extinguishment of debt

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

Net loss

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

Liquidity and Capital Resources

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

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

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

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

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

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

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

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Old Main Agreements

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

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

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

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

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

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

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

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

FirstFire Note

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

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

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

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

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

Darling Capital Note

On February 5, 2018, we entered into a Securities Purchase Agreement with Darling Capital LLC, ("Darling"), whereby Darling agreed to purchase a 8% Convertible Promissory Note in the aggregate principal amount of $550,000 (the "Darling Note") from us due, subject to the terms therein, eighteen (18) months from the date of issuance, for a purchase price of $500,000.

Darling may, at its option, convert all or a portion of the Darling Note and accrued but unpaid interest into shares of common stock at a conversion price of $0.3125 per share. The Darling Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than $0.3125 per share of common stock, the conversion price of the Darling Note will be reset to such lower price.

On the closing date, we also issued Darling a three-year common stock purchase warrant to purchase 400,000 shares of our common stock at an initial exercise price of $0.75 per share.

Efrat Investments Note

On February 16, 2018, we entered into a Securities Purchase Agreement with Efrat Investments LLC, ("Efrat"), whereby Efrat agreed to purchase a 8% Convertible Promissory Note in the aggregate principal amount of $55,000 (the "Efrat Note") from us due, subject to the terms therein, eighteen (18) months from the date of issuance, for a purchase price of $50,000.

Efrat may, at its option, convert all or a portion of the Efrat Note and accrued but unpaid interest into shares of common stock at a conversion price of $0.3125 per share. The Efrat Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than $0.3125 per share of common stock, the conversion price of the Efrat Note will be reset to such lower price.

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On the closing date, we also issued Efrat a three-year common stock purchase warrant to purchase 40,000 shares of our common stock at an initial exercise price of $0.75 per share.

David Lamadrid Note

On February 26, 2018, we entered into a Securities Purchase Agreement with David Lamadrid, ("Lamadrid"), whereby Mr. Lamadrid agreed to purchase a 8% Convertible Promissory Note in the aggregate principal amount of $31,250 (the "Lamadrid Note") from us due, subject to the terms therein, eighteen (18) months from the date of issuance.

Mr. Lamadrid may, at his option, convert all or a portion of the Lamadrid Note and accrued but unpaid interest into shares of common stock at a conversion price of $0.3125 per share. The Lamadrid Note also contains a reset feature, whereby, absent certain exceptions, if the Company issues equity securities at an effective price less than $0.3125 per share of common stock, the conversion price of the Lamadrid Note will be reset to such lower price.

On the closing date, we also issued Mr. Lamadrid a three-year common stock purchase warrant to purchase 25,000 shares of our common stock at an initial exercise price of $0.75 per share.

Koretsky and Affiliate Notes

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

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

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

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

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

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

Binder Notes

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

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

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

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

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

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

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

Omnibus Loan Amendment Agreement and Second Omnibus Loan Amendment

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

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

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

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

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

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

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

Oasis Cannabis Transaction

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

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

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

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

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

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

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

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

Assuming we close on the Acquisition Agreement, in May 2020, Alternative Solutions will be entitled to a $1,000,000 payment from us (the "Bonus Purchase Price") if the existing dispensary operated by an Oasis LLC has maintained an average revenue of $20,000 per day during the 2019 calendar year.

The sale, assignment, transfer, pledge or other disposition of any interest in the Oasis LLCs or Alternative Solutions is ineffective unless approved in advance by the state of Nevada and any municipality in which the Oasis LLC's operation is licensed.

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

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

Going concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, have an accumulated deficit of $14,583,951 and had a working capital deficit of $2,735,776 at February 28, 2018. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental stage companies.

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

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

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

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Recently Issued Accounting Standards

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

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. We are currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Outlook

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

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

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

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including PRH. Recently, we suspended our plans to proceed with the Colorado Arrangement due to regulatory delays and have not yet determined when we will pursue it again. Instead, we plan to pursue other revenue producing opportunities in other states through the acquisition of cannabis and other complementary companies, including the Pure Harvest transaction. CLS Labs had not otherwise commercialized its proprietary process prior to the Merger and has not earned any revenues.

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

We had a net loss of $4,865,724 for the year ended May 31, 2017, resulting in an accumulated deficit as of May 31, 2017 of $8,991,610. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the years ended May 31, 2017 and May 31, 2016.

Revenues

The Company had no revenues for the years ended May 31, 2017 and 2016.

Selling, general and administrative expenses

Selling, general and administrative expenses decreased $595,455, or approximately 45%, to $718,770 during the year ended May 31, 2017, compared to $1,314,225 for the year ended May 31, 2016. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, financing fees, bank charges and payroll expenses. The decrease in selling general and administrative expenses for the year ended May 31, 2017 was primarily due to a decrease in non-cash compensation and to a decrease in commitment fees associated with our credit arrangements. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Startup Costs

Startup costs were $141,739 for the year ended May 31, 2017, compared to $0 for the year ended May 31, 2016. Startup costs consisted of costs incurred in preparing to commence operation of our processing facility in Colorado.

Professional fees

Professional fees decreased $205,364, or approximately 21%, to $750,446 during the year ended May 31, 2017, compared to $955,810 for the year ended May 31, 2016. This decrease was due primarily to decreases in consulting and investor relations fees and legal fees associated with SEC capital raising filings during the year ended May 31, 2017 as we began to implement the Colorado Arrangement and pursued fewer capital raising opportunities. We expect professional fees to increase in future periods as our business grows.

Interest expense

Our interest expense was $2,571,171 for the year ended May 31, 2017, an increase of $2,169,150 or 540% compared to $402,021 for the year ended May 31, 2016. Interest expense consisted of $1,075 of imputed interest associated with $17,930 due to related parties, $204,363 of interest on related party debt, $91,215 of interest on third party debt, $1,160,887 of amortization of discounts on convertible notes payable to third parties, and $1,114,101 of amortization of discounts on convertible notes payable to related parties. The amortization of discounts on notes payable is attributable to the beneficial conversion feature of these notes. Interest expense increased primarily due to the restructuring of the terms of the 2016 Convertible Notes and the related party notes (pursuant to the Omnibus Loan Agreement), which resulted in writing-off the balance of the discount on the notes, and creating a new discount at the time of the restructuring.

Loss on modification of debt

During the year ended May 31, 2017, we recognized a loss on the modification of related party debt in the amount of $951,239. Effective May 31, 2017, pursuant to the Omnibus Loan Agreement, the holders of an aggregate of $2,537,750 of principal and $166,490 of accrued interest converted these amounts at the rate of $0.25 per share into an aggregate of 7,609,910 shares of our common stock. Loss on modification of debt was calculated as the difference between the market price of our common stock at the conversion date of $0.125 and the conversion price of $0.25, or $951,239.

Also during the year ended May 31, 2017, we recognized a loss on the modification of debt in the amount of $43,334. On November 28, 2016, we entered into an amendment to the 10% Notes. In exchange for amending the terms of the 10% Notes we increased the outstanding principal balance of such notes by 10%, resulting in a loss on the modification of the 10% Notes in the amount of $33,334. On March 27, 2017, we entered into an amendment to the 8% Note. In exchange for amending the terms of the 8% Note, we increased the outstanding principal balance of such note by 10%, resulting in a loss on the modification of the 8% Note in the amount of $10,000.

Change in fair value of derivative liability

During the years ended May 31, 2017 and 2016, we had outstanding convertible promissory notes that contained a conversion price reset feature that require us to value and record a derivative liability related to this provision on a quarterly basis. We revalued the derivative liability at May 31, 2017 at $95,276, which resulted in a gain of $310,975. We also revalued the derivative liability at May 31, 2016, at $418,537, which resulted in a gain of $61,757, which we included in results of operations for the year May 31, 2016. Management utilizes a lattice model to estimate the fair value of derivative liabilities.

Net loss

For the reasons above, our net loss for the year ended May 31, 2017 was $4,865,724 compared to $2,610,299 for the year ended May 31, 2016. The net loss per diluted share for the year ended May 31, 2017 was $0.23. This amount was computed based on the weighted average of 20,778,765 shares outstanding during the fiscal year. The net loss per diluted share for the year ended May 31, 2016 was $0.13. This amount was computed based on the weighted average of 20,146,260 shares outstanding during the fiscal year.

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Liquidity and Capital Resources

The following table summarizes our current total assets, liabilities and working capital at May 31, 2017 and 2016:

	May 31, 2017	May 31, 2016
Current Assets	$ 79,720	$ 94,986
Current Liabilities	$ 1,826,478	$ 1,339,444
Working Capital (Deficit)	$ (1,746,758)	$ (1,244,458)

At May 31, 2017 and May 31, 2016, we had a working capital deficit of $1,746,758 and $1,244,458, respectively. This working capital deficit occurred primarily because we have not yet commenced earning revenues. Due to the suspension of our plans to commence operations in Colorado, we cannot estimate when we will commence earning revenues. During the year ended May 31, 2017, we obtained loans from our officers and directors to cover operating expenses and expenses associated with the construction of our processing facility in Colorado. This working capital deficit will likely continue to increase until we begin earning revenues but should not be viewed as an indicator of our future performance once we commence earning revenues. We have operated at a loss since inception.

Cash flows used in operations were $1,182,305 during the year ended May 31, 2017, an increase of $30,878, or 2.7%, compared to $1,151,427 during the year ended May 31, 2016. Although our net loss for the year ended May 31, 2017 increased by $2,255,425, or 86%, from the year ended May 31, 2016, most of this increase was due to non-cash expenses, such as the amortization of debt discount of $2,274,988, and cash used in operations increased by only $30,878, or approximately 2.7% for the year.

Cash flows from used in investing activities were $35,013 for the year ended May 31, 2017, a decrease of $74,387, or 68.0%, compared to $109,400 during the year ended May 31, 2016. During the year ended May 31, 2017, we invested in construction in progress at our Colorado facility, which construction slowed as we waited for regulatory approvals. During the year ended May 31, 2016, we invested in equipment and had construction in progress at our Colorado facility.

Cash flows provided by financing activities were $1,207,384 during the year ended May 31, 2017, an increase of $67,164 or 5.9% compared to $1,140,250 during the year ended May 31, 2016. During the year ended May 31, 2017, we borrowed approximately $1,597,550 from our officers and directors. During the year ended May 31, 2016, we borrowed approximately $840,250 from our officers and directors and issued the 10% Notes to Old Main for cash.

April 2015 Note

On April 29, 2015, we issued a convertible promissory note (the "April 2015 Note") to an unaffiliated individual in the amount of $200,000. Interest accrues on the April 2015 Note at a rate of 15% per annum. On the first anniversary of the April 2015 Note, all then-accrued interest was due thereunder. Thereafter, principal together with accrued interest is due in eight (8) equal quarterly payments, in arrears, commencing on July 1, 2016. All outstanding principal and any accumulated unpaid interest thereon is due and payable on the third anniversary of note. At the holder's election, at any time prior to payment or prepayment of the April 2015 Note in full, all principal and accrued interest under the April 2015 Note may be converted in whole, but not in part, into our securities. For each dollar converted, the holder shall receive two shares of common stock and a three-year warrant to purchase 1.33 shares of common stock at $0.75 per share. During the year ended May 31, 2017, the Company repaid principal in the amount of $100,000 and interest in the amount of $53,837 on this note. The principal balance on this note was $100,000 at May 31, 2017.

Old Main Notes

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

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

On November 28, 2016, we entered into a Second Amendment to the 10% Notes issued on March 18, April 22 and May 27, 2016 (the “Second Amendment”) to amend the Agreements, as amended by the First Amendment, in certain respects. Pursuant to the Second Amendment, among other things, the 10% Notes were converted from installment notes to “balloon” notes, with all principal and interest on the 10% Notes due on September 18, 2017 and the outstanding principal balances of the 10% Notes were increased by 10%; the Fixed Conversion Prices associated with the 10% Notes were changed to variable conversion prices equal to the lesser of the prior Fixed Conversion Price or 75% of the lowest VWAP in the fifteen trading days ending on the trading day immediately prior to the conversion date; our ability to repay the 10% Notes with our common stock was deleted except pursuant to a voluntary conversion by Old Main; and Old Main was prohibited from selling, per trading day, an amount of our common stock in excess of the greater of $5,000 or 25% of the average number of shares of common stock sold per day for the five trading days preceding the day of sale multiplied by the average daily VWAP during the immediately preceding 5-trading day period. The Second Amendment resulted in a loss on modification of debt in the amount of $33,334.

On March 27, 2017, we entered into Amendment #3 to the Convertible Promissory Notes issued on March 18, April 22 and May 27, 2016 (the “Third Amendment”) to further amend the 10% Notes, as amended by the First Amendment and Second Amendment, in certain respects. In the Third Amendment, we agreed, among other things, to prepay all amounts due under the 10% Notes on or before April 1, 2017, which amount was agreed to be $372,700 (the “Settlement Amount”). If we failed to pay the Settlement Amount on or before April 1, 2017, Old Main had the right to declare the Third Amendment null and void. On April 3, 2017, (the first business day after March 31, 2017) we paid the Settlement amount of $372,700 to Old Main.

During the twelve months ended May 31, 2017, Old Main converted an aggregate of $137,500 in principal of the 10% Notes, in eight transactions, into 1,685,981 shares of common stock.

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

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

On March 27, 2017, we entered into the Third Amendment, which, among other things, increased the outstanding amount due under the 8% Note as of March 18, 2017 by 5%. In exchange for doing so, Old Main agreed to extend the maturity of the 8% Note until July 1, 2017 and to suspend conversions under the 8% Note until July 1, 2017. At May 31, 2017, the principal balance due under the 8% note was $210,000. The Third Amendment resulted in a loss on modification of debt in the amount of $10,000.

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

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

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

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

Koretsky and Affiliate Notes

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

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

After excluding the loans from Mr. Koretsky, CLS CO 2016 and Newcan that were converted into our common stock effective as of May 31, 2017, there was a balance of $120,000 in loans that remained outstanding as of December 31, 2016. This amount consisted of the $120,000 principal balance of the Koretsky Funding Loans (which were exchanged for Newcan Convertible Note 1 on March 31, 2017). During 2017, Newcan advanced an additional $621,658 of unsecured, book entry loans prior to May 31, 2017. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 4"). The Newcan Convertible Note 4 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 4 in full, all principal and accrued interest under the Newcan Convertible Note 4 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Subsequent to May 31, 2017, Newcan has loaned us an aggregate additional $70,000 pursuant to the Newcan Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans were exchanged for a convertible note dated August 23, 2017 (the "Newcan Convertible Note 5"). The Newcan Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Koretsky's election, at any time prior to payment or prepayment of the Newcan Convertible Note 5 in full, all principal and accrued interest under the Newcan Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Binder Notes

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

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

All of Mr. Binder's loans that were outstanding as of December 31, 2016 were converted to common stock effective May 31, 2017, including all of his accrued deferred salary as of December 31, 2016. As of May 31, 2017, there was a balance of $149,550 in loans from Mr. Binder that remained outstanding. This amount consisted of the $72,000 principal balance of Binder Convertible Note 4, which related to advances made and salary accrued after January 1, 2017, and an additional $77,550 of unsecured, book entry loans. These loans bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted as a result of the effect of the Omnibus Loan Amendment Agreement, which added the conversion feature to these loans. On August 23, 2017, $77,500 of these loans plus accrued salary due to Mr. Binder in the amount of $37,500 were exchanged for a convertible note dated August 23, 2017 in the amount of $115,050 (the "Binder Convertible Note 5"). The Binder Convertible Note 5 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 5 in full, all principal and accrued interest under the Binder Convertible Note 5 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Subsequent to May 31, 2017, Mr. Binder has loaned us an aggregate additional $47,767 pursuant to the Binder Funding Notes. These book entry loans were unsecured, bore interest at the rate of 10% per annum and were convertible into our common stock at the rate of one share for each $0.25 converted. On August 23, 2017, these loans plus an additional $25,000 in accrued salary due to Mr. Binder were exchanged for a convertible note dated August 23, 2017 in the amount of $72,767 (the "Binder Convertible Note 6"). The Binder Convertible Note 6 is unsecured and bears interest at the rate of 10% per annum. No payments are required until October 1, 2018, at which time all accrued interest becomes due and payable. Principal will be payable in eight equal quarterly installments, together with accrued interest, beginning on January 2, 2019. At Mr. Binder's election, at any time prior to payment or prepayment of the Binder Convertible Note 6 in full, all principal and accrued interest under the Binder Convertible Note 6 may be converted, in whole or in part, into our common stock at the rate of one share for each $0.25 converted.

Omnibus Loan Amendment Agreement

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

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

CLS CO Note

On August 3, 2016, we borrowed $150,000 from CLS CO 2016, an entity affiliated with Mr. Koretsky. This note was unsecured and bore interest at the rate of 15% per annum. All interest accruing during the first year was to be added to principal. Commencing on November 1, 2017, principal was to be payable in four equal quarterly installments, together with accrued interest. At the note holder's election, at any time prior to payment or prepayment of the loan in full, all principal and accrued interest under the loan was to be converted, in whole or in part, into our securities. Upon such an election, the holder was to receive one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share. Pursuant to the Omnibus Loan Agreement, on May 31, 2017, (i) the conversion rate of this convertible note was reduced to $0.25 per share, and (ii) the requirement to issue warrants upon conversion was deleted. Also on May 31, 2017, principal and accrued interest in the amounts of $150,000 and $9,247, respectively, on the note payable to CLS CO 2016 were converted into a total of 636,988 shares of our common stock.

Over the next twelve months we will require significant additional capital to cover our projected cash flow deficits due to the repayment of the April 2015 Note, payments on the 8% Note, payments on the loans from Jeffrey Binder, Frank Koretsky, and Newcan Investment Partners, LLC, the implementation of our business plan, and the development of alternative revenue sources. Additionally, we anticipate that we will devote resources to research and development related to the refinement of our patent pending proprietary methods and processes and development of new products. We estimate research and development costs of between $50,000 and $100,000 during the next 12 months.

We currently have two employees, Jeffrey Binder, who serves as the Chairman, President and Chief Executive Officer of the Company, and Alan Bonsett, who serves as the Chief Operating Officer of the Company. In an effort to assist us conserve cash, Mr. Binder deferred all of his salary through May 31, 2016, which deferred salary totaled $250,000, and on July 20, 2016 he accepted a convertible promissory note from us in lieu of such salary. Mr. Binder also deferred all of his salary from June 1, 2016 through July 31, 2017 and on February 28, 2017, March 31, 2017 and August 23, 2017, Mr. Binder accepted promissory notes from us which include the amounts of $112,500, $37,500, and $25,000, in lieu of such salary. Mr. Binder has deferred all his salary form March 1, 2017 through the date hereof as well. During the year ended May 31, 2016, we issued to Mr. Bonsett a one-time signing bonus of 250,000 shares of restricted common stock of the Company, which became fully vested one year from the effective date of his employment agreement. We valued the shares at $327,500. During the years ended May 31, 2017 and 2016 we recognized $0 and $327,500 in share-based compensation, respectively.

We do not currently have the capital necessary to meet our liquidity needs, fund our capital requirements or implement our business plan. We intend to fund our cash flow and capital requirements during the next year from the proceeds of the equity line agreement, the sale of our debt and equity securities, by obtaining additional loans and with cash generated through operations from companies we may acquire in the future. There can be no assurance that we will be able to meet our needs, however, as we have not yet received any commitments for the purchase of our equity securities or for additional loans, and although we have entered into a non-binding letter of intent with Pure Harvest, we have not entered into any definitive agreements to acquire Pure Harvest or other companies. Because we do not know when we will re-visit commencing operations in Colorado, there can be no assurance that PRH will ever generate sufficient cash to repay the $500,000 loan from CLS Labs Colorado or meet PRH's obligations under the Licensing Agreement or Equipment Lease. Further, due to delay we encountered with the construction of our Colorado processing facility, we have placed our proposed Colorado operations on hold and will pursue revenue opportunities in other states. We anticipate that we will incur operating losses during the next twelve months.

Consulting Agreements

We have also utilized the services of outside investor relations consultants. Pursuant to a consulting agreement, we agreed to pay a consultant a monthly fee of $6,000 at the beginning of each month and agreed to issue the consultant 120,000 shares of restricted common stock vesting at a rate of 10,000 shares per month. During the three months ended May 31, 2015, we paid $12,000 to the consultant and 10,000 (post Reverse Split) shares vested. We terminated the consulting agreement during the year ended May 31, 2016 and issued the 60,000 shares of common stock that had vested, of which 50,000 shares with a value of $37,500 had been included in stock payable as of May 31, 2015.

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

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, 2016 and May 31, 2017, we have included 20,000 shares of common stock, valued at $23,200 in stock payable on the accompanying balance sheets. The shares were valued based on the closing market price on the grant date.

On December 29, 2015, pursuant to a consulting agreement, we agreed to issue 25,000 shares of common stock per month, valued at $21,250, to a consultant in exchange for investor relations consulting services. The consulting agreement was terminated during the first month of its term. The parties are in discussions regarding whether any shares of our common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, and May 31, 2017, we had 50,000 shares of common stock, valued at $42,500 included in stock payable on the accompanying balance sheet. The shares were valued based on the closing market price on the grant date.

In May 2017, pursuant to a consulting agreement, we agreed to issue 25,000 shares of common stock, valued at $3,250, to a consultant in exchange for strategic advisory services. These shares have not yet been issued, and the amount of $3,250 is included in stock payable on the accompanying balance sheet.

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

Going concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, have an accumulated deficit of $8,991,610 and had a working capital deficit of $1,746,758 at May 31, 2017. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to raise equity to acquire companies, support the opening of processing facilities and to finance ongoing operations. There can be no assurance, however, that we will be successful in our efforts to raise additional debt or equity capital and/or that our 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 or operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Critical Accounting Estimates

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

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

Recently Issued Accounting Standards

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

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

In May 2017, the FASB issued ASU No. 2017-09, *Stock Compensation - Scope of Modification Accounting*, which provides guidance on which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The ASU requires that an entity account for the effects of a modification unless the fair value (or calculated value or intrinsic value, if used), vesting conditions and classification (as equity or liability) of the modified award are all the same as for the original award immediately before the modification. The ASU becomes effective for us on January 1, 2018, and will be applied prospectively to an award modified on or after the adoption date. Early adoption is permitted, including adoption in any interim period. We are currently assessing the impact that this standard will have on any awards that are modified once this standard is adopted.

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.

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Item 7A. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Outlook

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

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

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

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into the Colorado Arrangement through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities, including PRH. CLS Labs had not otherwise commercialized its proprietary process prior to the Merger and has not earned any revenues.

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

We had a net loss of $2,610,299 for the year ended May 31, 2016, resulting in an accumulated deficit as of May 31, 2016 of $4,125,886. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the years ended May 31, 2016 and May 31, 2015.

Revenues

The Company had no revenues for the years ended May 31, 2016 and 2015.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $315,231, or approximately 32%, to $1,314,225 during the year ended May 31, 2016, compared to $998,994 for the year ended May 31, 2015. General and administrative expenses consisted primarily of general office expenses, travel costs, rent expense, bank charges and payroll expenses. The increase in selling general and administrative expenses for the year ended May 31, 2016 was primarily due to rent associated with the Colorado Arrangement as the Company did not pay any such rent for the year ended May 31, 2015. We expect general and administrative expenses to increase in future periods as we implement our business plan and commence operations.

Professional fees

Professional fees increased $451,456, or approximately 90%, to $955,810 during the year ended May 31, 2016, compared to $504,354 for the year ended May 31, 2015. This increase was due primarily to increases in consulting and investor relations fees and legal fees during the year ended May 31, 2016 as the Company began to implement the Colorado Arrangement and incurred additional fees associated with being a public company. We expect professional fees to increase in future periods as our business grows.

Interest expense

The Company's interest expense was $402,021 for the year ended May 31, 2016 compared to $12,239 for the year ended May 31, 2015. Interest expense consisted of $1,078 of imputed interest, $64,811 of interest on related party debt, $38,486 of interest on debt, $286,317 of amortization of discounts on convertible notes payable, which is attributable to the beneficial conversion feature of these notes, and $11,330 in excess discount on convertible notes over principal, which is attributable to the ratchet provision in the Old Main notes. The ratchet provision is treated as an embedded derivative and the value of this derivative that exceeded the face amount of the notes is treated as interest. Interest expense increased primarily due to the increase in the aggregate amount of debt outstanding from $800,000 at May 31, 2015 to $2,173,582 at May 31, 2016 and the increase in debt discounts due to the Company's issuance of convertible debt of $200,000 at May 31, 2015 to $2,100,832 at May 31, 2016.

Change in fair value of derivative liability

During the year ended May 31, 2016, the Company issued convertible promissory notes that contain a conversion price reset feature that required the Company to record a derivative liability valued at $480,294. The Company revalued the derivative liability at May 31, 2016 at $418,537. This revaluation resulted in a gain of $61,757, which the Company included in results of operations for the year May 31, 2016.

Net loss

For the reasons above, the Company's net loss for the year ended May 31, 2016 was $2,610,299 compared to $1,515,587 for the year ended May 31, 2015. The net loss per diluted share for the year ended May 31, 2016 was $0.13. This amount was computed based on the weighted average of 20,146,260 shares outstanding during the fiscal year.

Liquidity and Capital Resources

The following table summarizes our current total assets, liabilities and working capital at May 31, 2016 and 2015:

	May 31, 2016	May 31, 2015
Current Assets	$ 94,986	$ 240,621
Current Liabilities	$ 1,339,444	$ 875,696
Working Capital (Deficit)	$ (1,244,458)	$ (635,075)

At May 31, 2016 and May 31, 2015, we had a working capital deficit of $1,244,458 and $635,075, respectively. This working capital deficit occurred primarily because we have not yet commenced earning revenues. We anticipate that we will commence earning revenues by the first quarter of 2017. During the year ended May 31, 2016, we obtained loans from our officers and directors to cover operating expenses and expenses related to the Merger and the Colorado Arrangement. In March 2016, we also closed on the Securities Purchase Agreement and used the proceeds from the first three tranches of 10% Notes, issued on March 18, 2016, April 22, 2016 and May 27, 2016, respectively, for working capital purposes. This working capital deficit will likely continue to increase until we begin earning revenues but should not be viewed as an indicator of our future performance once we commence earning revenues. We have operated at a loss since inception.

Cash flows from operations used $1,151,427 during the year ended May 31, 2016 compared to $793,771 during the year ended May 31, 2015. This increase is primarily due to the Company having entered into the Colorado Arrangement and having commenced active trading in its common stock on the OTCQB during 2015. As a result, during the year ended May 31, 2016, we issued our stock to pay for investor relations services, issued stock to our new COO, and incurred deferred compensation owed to our CEO for the entire twelve month period versus only eight months during the comparable period in 2015. The increase was also due to the amortization of the debt discount associated with the Company's convertible notes, issuance of the 8% Note as a commitment fee for the equity line, deferred liabilities associated with the Colorado Arrangement and an increase in accounts payable because we were incurring expenses associated with the Colorado Arrangement but had not yet commenced earning revenue.

Cash flows from investing activities used $109,400 during the year ended May 31, 2016 compared to $797,408 during the year ended May 31, 2015. During the year ended May 31, 2016, we invested in equipment and had construction in progress at our Colorado facility. During the year ended May 31, 2015, we paid a fee to acquire the "public shell", acquired intangible assets and issued a note receivable to PRH.

Cash flows from financing activities provided $1,140,250 during the year ended May 31, 2016 compared to $1,800,000 during the year ended May 31, 2015. During the year ended May 31, 2016, we borrowed funds from our officers and directors and issued the 10% Notes to Old Main for cash. During the year ended May 31, 2015, we borrowed funds from our officers and directors and these same officers and directors purchased equity in the Company.

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

To fund operations during the year ended May 31, 2016, we relied upon loans from Jeffrey Binder, an officer and director of the Company, and Frank Koretsky, a director of the Company. Through December 31, 2015, we borrowed $50,000 from Mr. Binder and $895,000 from Mr. Koretsky. The terms of these loans were memorialized in convertible notes dated January 12, 2016 in favor of each of Mr. Binder and Mr. Koretsky. Pursuant to the terms thereof, these loans are unsecured and bear interest at a rate of 6% per annum. No payments are required until January 1, 2017, at which time all accrued interest becomes due and payable. Principal and additional accrued interest will be payable in eight equal quarterly installments beginning on April 1, 2017. At the election of the holder, at any time prior to payment or prepayment of the loans in full, all principal and accrued interest under the loans may be converted, in whole or in part, into our securities. Upon such an election, the holder will receive one "Unit" for each $0.75 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.00 per share.

During January and February 2016, we borrowed an additional $12,750 from Mr. Binder and $380,000 from Mr. Koretsky to fund operations. These loans, each of which was memorialized in a convertible promissory note dated April 11, 2016, are unsecured and bear interest at a rate of 6% per annum through February 29, 2016 and 10% per annum thereafter. Accrued interest will become due on April 1, 2017, with principal being payable in eight equal quarterly installments, together with accrued interest, beginning on July 1, 2017. At the holder's election, at any time prior to payment or prepayment of the loans in full, all principal and accrued interest under the loans may be converted, in whole or in part, into the our securities. Upon such an election, the holder will receive one "Unit" for each $1.07 converted, with each Unit consisting of one (1) share of common stock and a five-year warrant to purchase (1) share of common stock at a price of $1.07 per share.

Between March 2, 2016 and July 5, 2016, we borrowed an additional $210,000 from Mr. Koretsky and $42,500 from Mr. Binder at an interest rate of 10% per annum with the balance of the loan terms remaining unfinalized. Of the funds loaned by Mr. Binder, $29,750 were included in the April 11, 2016 convertible note referenced above, with the remaining $12,750 loaned by Mr. Binder and the $210,000 loaned by Mr. Koretsky memorialized on July 20, 2016 in convertible notes upon the same terms as the April 11, 2016 convertible notes.

On March 18, 2016, we entered into a securities purchase agreement with Old Main, whereby Old Main agreed to purchase an aggregate of up to $500,000 in subscription amount corresponding to an aggregate of up to $555,555 in principal amount of 10% original issue discount convertible promissory notes due, subject to the terms therein, as set forth below. Pursuant to the terms of the securities purchase agreement, the purchase will occur, at our option, in up to five tranches. The first tranche of $200,000 was purchased on March 18, 2016; the second tranche of $50,000 was purchased on the first Friday that was a trading day after the filing date of a registration statement by the Company covering the securities underlying the securities being purchased by Old Main; the third tranche of $50,000 was purchased on the first Friday that was a trading day at least three (3) trading days after we received initial comments from the SEC on the registration statement; the fourth tranche of $100,000 will be purchased on the first Friday which is a trading day that is at least three trading days after the date the registration statement is declared effective; and the fifth tranche of $100,000 will be purchased on the first Friday which is a trading day after the thirty-day anniversary of the date the registration statement is declared effective by the SEC.

The 10% Notes bear interest at the rate of 10% per annum. At the earlier of September 18, 2016 or two (2) trading days after this registration statement is declared effective, we must begin to redeem 1/24th of the face amount of the 10% Notes and any accrued but unpaid interest on a bi-weekly basis. Such amortization payment may be made, at our option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $0.80 (the “Fixed Conversion Price”) or (b) 75% of the lowest daily volume weighted average price of our common stock (the “VWAP”) in the 20 consecutive trading days immediately prior to the applicable conversion date. The holder may, at its option, convert all or a portion of the 10% Notes into shares of common stock at a conversion price equal to the Fixed Conversion Price.

On March 18, 2016, we also issued Old Main an 8% Note in the principal amount of $200,000 for Old Main’s commitment to enter into an equity line transaction with us and prepare all of the related transaction documents. The 8% Note bears interest at the rate of 8% per annum. At the earlier of September 18, 2016 or two (2) trading days after the Registration Statement becomes effective, we must begin to redeem 1/6th of the face amount of the 8% Note and any accrued but unpaid interest on a monthly basis. Such amortization payment may be made, at our option, in cash or, subject to certain conditions, in common stock pursuant to a conversion rate equal to the lower of (a) $1.07 (the “8% Note Fixed Conversion Price”) or (b) 75% of the lowest VWAP in the twenty (20) consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date. The terms of the equity purchase agreement required us to issue the 8% Note as a commitment fee for the Equity Line. This commitment fee was earned in full when Old Main delivered and executed the equity purchase agreement on April 18, 2016.

On April 18, 2016, we entered into an equity purchase agreement with Old Main providing that, upon the terms and subject to the conditions thereof, Old Main is committed to purchase, on an unconditional basis, shares of common stock at an aggregate price of up to $4,000,000 over the course of its 24-month term (the “Equity Line”). Old Main’s obligation to purchase all $4,000,000 of shares is referred to as the “Total Commitment.” From time to time over the 24-month term of the equity purchase agreement, we may, in our sole discretion, provide Old Main with a put notice, to purchase a specified number of shares. The actual amount of proceeds we receive pursuant to each put notice will be determined by multiplying the put amount requested by the applicable purchase price. The purchase price of each share to be purchased equals 80% of the market price during the five (5) consecutive trading days immediately following the clearing date associated with the applicable put notice.

Over the next twelve months we will require significant additional capital to cover our projected cash flow deficits due to the Colorado Arrangement and related agreements, the repayment of the April 2015 Note, payments on the 10% Notes and 8% Note, payments on the loans from Jeffrey Binder and Frank Koretsky, the implementation of our business plan, and the development of alternative revenue sources. Additionally, we anticipate that we will devote resources to research and development related to the refinement of our patent pending proprietary methods and processes and development of new products. We estimate research and development costs of between $50,000 and $100,000 during the next 12 months. Finally, during the next 18-24 months, we plan to construct and open two to three processing facilities for use either by a licensee or by us directly. We anticipate that the build out and opening of each processing facility will require between $1,000,000 and $3,000,000 in capital, with additional capital required for liquidity to cover personnel, equipment, and other operating expenses with respect to each opened facility.

We currently have two employees, Jeffrey Binder, who serves as the Chairman, President and Chief Executive Officer of the Company, and Alan Bonsett, who serves as the Chief Operating Officer of the Company. In an effort to assist us conserve cash, Mr. Binder deferred all of his salary through May 31, 2016, which deferred salary totaled $250,000, and on July 20, 2016 he accepted a convertible promissory note from us in lieu of such salary. During the year ended May 31, 2016, we issued to Mr. Bonsett a one-time signing bonus of 250,000 (post Reverse Split) shares of restricted common stock of the Company, which became fully vested one year from the effective date of his employment agreement. We valued the shares at $327,500. During the year ended May 31, 2016 we recognized $327,500 in share-based compensation.

We do not currently have the capital necessary to meet our liquidity needs, fund our capital requirements or implement our business plan. We intend to fund our cash flow and capital requirements during the next year from the proceeds of the unissued 10% Notes and the Equity Line, the sale of our debt and equity securities, by obtaining additional loans and with cash generated through operations in connection with the Colorado Arrangement. There can be no assurance that we will be able to meet our needs, however, as we have not yet received any commitments for the purchase of our equity securities or for additional loans. Further, although we anticipate that we will begin receiving payments pursuant to the Licensing Agreement and Equipment Lease during the first quarter of 2017, the Colorado Arrangement has not generated revenue to date and, as described above, there can be no assurance that it will ever generate sufficient cash to repay the $500,000 loan from CLS Labs Colorado or to meet PRH’s obligations under the Licensing Agreement or Equipment Lease. We anticipate that we will incur operating losses during the next twelve months.

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Consulting Agreements

We have also utilized the services of outside investor relations consultants. Pursuant to a consulting agreement, we agreed to pay a consultant a monthly fee of $6,000 at the beginning of each month and agreed to issue the consultant 120,000 shares of restricted common stock vesting at a rate of 10,000 shares per month. During the three months ended May 31, 2015, we paid $12,000 to the consultant and 10,000 (post Reverse Split) shares vested. We terminated the consulting agreement during the year ended May 31, 2016 and issued the 60,000 shares of common stock that had vested, of which 50,000 shares with a value of $37,500 had been included in stock payable as of May 31, 2015.

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

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, 2016, we have included 20,000 shares of common stock, valued at $23,200 in stock payable on the accompanying balance sheets. The shares were valued based on the closing market price on the grant date.

On December 29, 2015, pursuant to a consulting agreement, we agreed to issue 25,000 shares of common stock per month, valued at $21,250, to a consultant in exchange for investor relations consulting services. The consulting agreement was terminated during the first month of its term. The parties are in discussions regarding whether any shares of our common stock have been earned and it is uncertain whether any shares will be issued. As of May 31, 2016, 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.

Going concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, have an accumulated deficit of $4,125,886 and had a working capital deficit of $1,244,458 at May 31, 2016. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to raise equity to support the opening of additional processing facilities and to finance ongoing operations. There can be no assurance, however, that we will be successful in our efforts to raise additional debt or equity capital and/or that our 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 or operations, liquidity, capital expenditures or capital resources that are material to stockholders.

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Critical Accounting Estimates

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

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

Recently Issued Accounting Standards

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

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"), which is intended to improve financial reporting in connection with leasing transactions. ASU 2016-02 will require entities ("lessees") that lease assets with lease terms of more than twelve months to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Under ASU 2016-02, a right-of-use asset and lease obligation will be recorded for all leases, whether operating or finance, while the income statement will reflect lease expense for operating leases and amortization/interest expense for finance leases. The treatment of entities that own the assets leased by lessees ("lessors") will remain largely unchanged from current GAAP. In addition, ASU 2016-02 requires disclosures to help investors and other financial statement users better understand the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the financial statements. Although we are currently evaluating the provisions of ASU 2016-02 to assess the impact on our consolidated financial statements, the primary effect of adopting the new standard will be to record assets and obligations for current operating leases.

In November 2015, the FASB issued ASU 2015-17, Income Taxes (Topic 740) - Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"), which requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified balance sheet. Previous guidance required deferred tax liabilities and assets to be separated into current and noncurrent amounts on the balance sheet. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU 2015-11"), which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value, except for companies using the Retail Inventory Method which will continue to use existing impairment models. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2016, and interim periods within those years, with early adoption permitted. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ACU No. 2014-09 - Revenue from Contracts with Customers ("ASU 2014-09"). This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605 - Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This ASU is effective on January 1, 2017 and must be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the ASU recognized at the date of initial application. We do not expect the adoption of this standard to have a material impact on our consolidated 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.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview and Outlook

The Company was 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 operations. On November 20, 2014, the Company changed its name to CLS Holdings USA, Inc.

On April 29, 2015 (the "Closing Date"), the Company, CLS Labs and the Merger Sub consummated the Merger, whereby the Merger Sub merged with and into CLS Labs, with CLS Labs remaining as the surviving entity. As a result of the Merger, we acquired the business of CLS Labs and abandoned our previous business. As such, only the financial statements of CLS Labs are included in this current report.

CLS Labs was originally incorporated in the state of Nevada on May 1, 2014 under the name RJF Labs, Inc. before changing its name to CLS Labs, Inc. on October 24, 2014. It was formed to commercialize a proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. These concentrates may be ingested in a number of ways, including through vaporization via electronic cigarettes ("e-cigarettes"), and used for a variety of pharmaceutical and other purposes. 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.

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by, through its wholly owned subsidiary, CLS Labs Colorado, entering into the Colorado Arrangement, as described in the "Description of Business" herein. To date, CLS Labs has not otherwise commercialized its proprietary process and has not earned any revenues.

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

The Company had a net loss of $1,515,587 for the twelve months ended May 31, 2015, resulting in an accumulated deficit as of May 31, 2015 of $1,515,587. These conditions raise substantial doubt about our ability to continue as a going concern.

Results of Operations for the year ended May 31, 2015 compared to the period from May 1, 2014 (inception) through May 31, 2014.

Revenues

The Company had no revenues for the year ended May 31, 2015 and for the period from inception (May 1, 2014) to May 31, 2014.

Selling, general and administrative expenses

The Company's general and administrative expenses were $998,994 for the year ended May 31, 2015 compared to $0 for the period from May 1, 2014 (inception) through May 31, 2014. General and administrative expenses consisted primarily of general office expenses, travel costs, costs related to the protection of intellectual property, impairment charges, bank charges and cost associated with research and development. We expect general and administrative expenses to increase over the next twelve months as we implement our business plan and operations expand.

Professional fees

The Company's' professional fees were $504,354 for the year ended May 31, 2015 compared to $0 for the period from May 1, 2014 (inception) through May 31, 2014. Professional fees consisted primarily of legal, investor relations, and business development services.

We expect professional fees to increase in future periods as our business grows.

Interest Expense

The Company's interest expense was $12,239 for the year ended May 31, 2015 compared to $0 for the period from May 1, 2014 (inception) through May 31, 2014. Interest expense consists of $716 of imputed interest, $5,967 of interest on debt and $5,556 of amortization of debt discounts on notes payable.

Net loss

For the reasons above, the Company's net loss for the year ended May 31, 2015 was $1,515,587 compared to $0 for the period from May 1, 2014 (inception) through May 31, 2014. The net loss per diluted share for the year ended May 31, 2015 was $0.24. This amount was computed based on the weighted average of 6,356,167 shares outstanding during the fiscal year. Following the issuance of common stock in connection with the Merger, there are currently 20,000,003 shares outstanding. If the net loss per share had been computed based on this number rather than the weighted average, the net loss per diluted share would have been $0.13. We believe this adjusted number is meaningful to shareholders as it is based on our outstanding shares on a post-Merger basis, which represents our initial capitalization as a public company with a new business plan and is the capitalization against which shareholders will likely wish to measure our performance in the future.

Liquidity and Capital Resources

The following table summarizes our current total assets, liabilities and working capital at May 31, 2015 and 2014.

	May 31, 2015	May 31, 2014
Current Assets	$ 240,621	$ -
Current Liabilities	$ 875,696	$ -
Working Capital (Deficit)	$ (635,075)	$ -

At May 31, 2015 and May 31, 2014, the Company had a working capital deficit of $635,075 and $0, respectively. This working capital deficit occurred primarily because we had not yet commenced earning revenues at May 31, 2015. We anticipate that we will commence earning revenues by the second quarter of 2016. During the year ended May 31, 2015, we obtained loans to cover operating expenses and expenses related to the Merger and the Colorado Arrangement. This deficit will likely continue to increase until we begin earning revenues but should not be viewed as an indicator of our future performance once we commence earning revenues. We have operated at a loss since inception.

To fund operations during the year ended May 31, 2015, we initially relied on the sale of 15,000,000 shares of our common stock (computed after the Merger on a post Reverse Split basis) to our three founders for $1,000,000. We later borrowed $200,000 from an unaffiliated individual (the "Convertible Loan") and $600,000 from Frank Koretsky, a director of the Company (the "Koretsky Loan"). The Convertible Loan accrues interest at a rate of 15% per annum. We will pay all then accrued interest on the first anniversary of the Convertible Loan and will make eight (8) equal payments of principal together with accrued interest, quarterly in arrears, commencing on July 1, 2016 and continuing until the Convertible Loan paid in full. The holder of the Convertible Loan has the right but not the obligation to make additional loans to us in tranches of $200,000 each, until the earlier of October 29, 2015 or until the holder has made loans to us that in the aggregate equal $1,000,000. At the holder's election, at any time prior to payment or prepayment of the Convertible Loan in full, all principal and accrued interest under the Convertible Loan may be converted in whole, but not in part, into shares of our common stock. For each dollar converted, the holder will receive two shares of common stock and a three-year warrant to purchase 1.33 (post Reverse Split) shares of common stock at $0.75 (post Reverse Split) per share. The Koretsky Loan is unsecured, due not earlier than April 23, 2016, and bears interest at a rate of 6% per annum. The balance of the Koretsky Loan terms have not yet been finalized. If we are unable to repay either the Convertible Loan or the Koretsky Loan when due in 2016, we will need to refinance such loans, and in the absence of being able to do so, could default and be subject to legal action and possible judgments against us, which would likely have a material adverse effect on our ability to grow and implement our business plan.

On April 17, 2015, we indirectly loaned $500,000 to PRH to be used by PRH in connection with the financing of the building out, equipping and development of a grow facility that will be licensed by a third party grower as part of the Colorado Arrangement. We also licensed our Process to PRH in conjunction with its manufacture, production, sale and distribution of it marijuana-related Products. Although the development of PRH's processing facility is underway, it is not yet operational and we will not begin to receive payments under our loan to PRH or licensing fees until three months after PRH receives a certificate of occupancy for its facility. If PRH is unable to complete the facility or commence operations for any reason, there is a substantial risk that it will be unable to repay us and perform its obligations to us. If this occurred or if the commencement of PRH's operations is delayed for any reason, this would likely delay the date upon which we would commence earning revenues and further increase our need to obtain cash to meet our liquidity needs from other sources.

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

We currently have three employees, Jeffrey Binder, who serves as the Chairman, President and Chief Executive Officer of the Company; Alan Bonsett, who was appointed Chief Operating Officer of the Company effective August 15, 2015; and Michael Abrams, who served as Chief Operating Officer prior to resigning effective August 15, 2015 and will remain our employee until September 1, 2015. In an effort to assist us conserve cash, Mr. Binder has deferred all of his salary (approximately $100,000 as of May 31, 2015) to date. We also utilize the services of an outside investor relations consultant. We pay the consultant a monthly fee of $6,000 at the beginning of each month and have awarded the consultant 120,000 shares of restricted common stock that vest at a rate of 10,000 shares per month. During the year ended May 31, 2015, we paid $30,000 to the consultant and 50,000 (post Reverse Split) shares vested. As of August 27, 2015, 10,000 (post Reverse Split) additional shares had vested and we anticipate that the remaining 60,000 (post Reverse Split) shares will vest over the next eight months. During the year ended May 31, 2015, we expensed $37,500 for the vested shares.

We plan to hire a Chief Financial Officer, administrative staff, a lab manager and a consultant, for a total of approximately six employees. In addition, each processing facility will require six to eight employees, depending upon the size of the facility. We also intend to use the services of independent consultants and contractors, such as our investor relations consultant, to perform various professional services when appropriate. We believe the use of third-party service providers may enhance our ability to control general and administrative expenses and operate efficiently as we implement our business plan. Currently, there are no organized labor agreements or union agreements and we do not anticipate any in the future. We are unable to estimate the cost of additional personnel at this time, but we expect such costs to be significant.

We do not currently have the capital necessary to meet our liquidity needs, fund our capital requirements or implement our business plan. We intend to fund our cash flow and capital requirements during the next year from the proceeds of the sale of our common stock, by obtaining additional loans and with cash generated through operations in connection with the Colorado Arrangement. There can be no assurance that we will be able to meet our needs, however, as we have not yet received any commitments for the purchase of our equity securities or for additional loans. Further, although we anticipate that we will begin receiving payments pursuant to the Licensing Agreement and Equipment Lease during the second quarter of 2016, the Colorado Arrangement has not generated revenue to date and, as described above, there can be no assurance that it will ever generate sufficient cash to repay the $500,000 loan from CLS Labs Colorado or to meet PRH's obligations under the Licensing Agreement or Equipment Lease. We anticipate that we will incur operating losses during the next twelve months.

Going concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, has an accumulated deficit of $1,515,587 and had working capital deficit of $635,075 at May 31, 2015. In addition, we do not currently have the cash resources to meet our operating commitments during the next twelve months. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by developmental stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to raise equity to support the opening of additional processing facilities and to finance ongoing operations. There can be no assurance, however, that we will be successful in our efforts to raise additional debt or equity capital and/or that our 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 or operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Recently Issued Accounting Standards

In June 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-10, "Development Stage Entities". The amendments in this update remove the definition of a development stage entity from the Master Glossary of the ASC thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and stockholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. The amendments in this update are applied retrospectively. The adoption of ASU 2014-10 removed the development stage entity financial reporting requirements from the Company.

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance requires that share-based compensation that require a specific performance target to be achieved in order for employees to become eligible to vest in the awards and that could be achieved after an employee completes the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation costs should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite service period, the remaining unrecognized compensation cost should be recognized prospectively over the remaining requisite service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This new guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2015. Early adoption is permitted. Entities may apply the amendments in this update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The adoption of ASU 2014-12 is not expected to have a material impact on our financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-10: Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation, to improve financial reporting by reducing the cost and complexity associated with the incremental reporting requirements of development stage entities. The amendments in this update remove all incremental financial reporting requirements from U.S. GAAP for development stage entities, thereby improving financial reporting by eliminating the cost and complexity associated with providing that information. The amendments in this Update also eliminate an exception provided to development stage entities in Topic 810, Consolidation, for determining whether an entity is a variable interest entity on the basis of the amount of investment equity that is at risk. The amendments to eliminate that exception simplify U.S. GAAP by reducing avoidable complexity in existing accounting literature and improve the relevance of information provided to financial statement users by requiring the application of the same consolidation guidance by all reporting entities. The elimination of the exception may change the consolidation analysis, consolidation decision, and disclosure requirements for a reporting entity that has an interest in an entity in the development stage. The amendments related to the elimination of inception-to-date information and the other remaining disclosure requirements of Topic 915 should be applied retrospectively except for the clarification to Topic 275, which shall be applied prospectively. For public companies, those amendments are effective for annual reporting periods beginning after December 15, 2014, and interim periods therein. Early adoption is permitted. The adoption of ASU 2014-10 is not expected to have a material impact on our financial position or results of operations.

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.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

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

SCHEDULE “C”

FINANCIAL STATEMENTS OF ALTERNATIVE SOLUTIONS

[See attached.]

Note 1 – Basis of Presentation

Basis of Presentation

The interim condensed consolidated financial statements of Alternative Solutions L.L.C. included herein, presented in accordance with United States generally accepted accounting principles and stated in US dollars, have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to not make the information presented misleading.

These statements reflect all adjustments, which in the opinion of management, are necessary for fair presentation of the information contained therein. Except as otherwise disclosed, all such adjustments are of a normal recurring nature. It is suggested that these interim condensed consolidated financial statements be read in conjunction with the financial statements of the Company for the year ended December 31, 2017 and notes thereto. The Company follows the same accounting policies in the preparation of interim reports.

Our consolidated financial statements are prepared using the accrual method of accounting as generally accepted in the United States of America (U.S. GAAP) and the rules of the SEC.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the following entities, all of which are under common control and ownership:

Name of Entity [1]	State of Incorporation	Relationship	Abbreviated Reference
Alternative Solutions L.L.C. [2]	Nevada	Parent	Alternative Solutions
Serenity Wellness Center LLC	Nevada	Subsidiary	SWC
DBA/ Oasis Cannabis	Nevada	DBA	Oasis
Serenity Wellness Products LLC	Nevada	Subsidiary	SWP
DBA/ City Trees	Nevada	DBA	City Trees
Serenity Wellness Growers LLC	Nevada	Subsidiary	SWG
DBA/ City Trees	Nevada	Subsidiary	City Trees

(1)Each entity is in the form of a domestic limited liability company.
(2)Alternative Solutions L.L.C. is the parent company of each wholly-owned subsidiary.

The consolidated financial statements herein contain the operations of the wholly-owned subsidiaries listed above. All significant inter-company transactions have been eliminated in the preparation of these financial statements. The parent company, Alternative Solutions, and subsidiaries noted above, will be collectively referred to herein as the "Company", "Alternative Solutions" or "Oasis". The Company's headquarters are located in Las Vegas, Nevada and substantially all of its current customers are within the United States, more specifically, Las Vegas, Nevada.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein.

Fair Value of Financial Instruments

Under FASB ASC 820-10-05, the Financial Accounting Standards Board establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement reaffirms that fair value is the relevant measurement attribute. The adoption of this standard did not have a material effect on the Company's financial statements as reflected herein. The carrying amounts of cash, prepaid expenses and accrued expenses reported on the balance sheet are estimated by management to approximate fair value primarily due to the short term nature of the instruments.

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Cash in Excess of FDIC Insured Limits
The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, under current regulations. The Company had $1,550,000 of funds in excess of FDIC insured limits at March 31, 2018. The Company has not experienced any losses in such accounts.

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

Deferred Rent Obligation
The Company has entered into operating lease agreements for its dispensary/corporate office and grow facility which contain provisions for future rent increases. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms. The difference between rent expense recorded and the amount paid is credited or charged to “Deferred rent obligation,” which is reflected as a separate line item in the accompanying Balance Sheets.

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

There was no impact on the Company’s financial statements as a result of adopting Topic 606 for the three months ended March 31, 2018 and 2017, or the twelve months ended December 31, 2017.

Revenue is primarily generated through our subsidiary, Serenity Wellness LLC, DBA/ Oasis Cannabis. Oasis operates a 24-hour cannabis dispensary that recognizes revenue from the sale of cannabis products within the state of Nevada.

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

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

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

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Recent Accounting Pronouncements
Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on the Company's financial statements as a result of adopting Topic 606 for the years ended December 31, 2018 and 2017.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting.* ASU 2017-09, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Per ASU 2017-9, an entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in ASU 2017-9. ASU 2017-9 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The adoption of *ASU 2017-9* is not expected to have a material impact on the Company's financial statements or related disclosures.

No other new accounting pronouncements, issued or effective during the three months ended March 31, 2018, have had or are expected to have a significant impact on the Company's financial statements.

Note 2 – Going Concern

As shown in the accompanying financial statements, the Company incurred net losses from operations resulting in an accumulated deficit of $4,915,894 that has been distributed to the partners' capital accounts, and used $258,088 of cash from operations during the three months ended March 31, 2018. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company is currently seeking additional sources of capital to fund short term operations. The Company, however, is dependent upon its ability to secure equity and/or debt financing and there are no assurances that the Company will be successful; therefore, without sufficient financing it would be unlikely for the Company to continue as a going concern.

The financial statements do not include any adjustments that might result from the outcome of any uncertainty as to the Company's ability to continue as a going concern. The financial statements also do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3 – Fair Value of Financial Instruments

Under FASB ASC 820-10-5, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and FASB ASC 820-10-50 details the disclosures that are required for items measured at fair value.

The Company has certain financial instruments that must be measured under the new fair value standard. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 - Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

The following schedule summarizes the valuation of financial instruments at fair value on a recurring basis in the balance sheets as of March 31, 2018 and December 31, 2017, respectively:

	Fair Value Measurements at March 31, 2018		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 1,849,955	$ -	$ -
Total assets	1,849,995	-	-
Liabilities			
Convertible note payable, related parties	-	200,000	-
Notes payable, related parties	-	57,557	-
Total liabilities	-	257,557	-
	$ 1,849,955	$ (257,557)	$ -

	Fair Value Measurements at December 31, 2017		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 332,060	$ -	$ -
Total assets	332,060	-	-
Liabilities			
Convertible note payable, related parties	-	200,000	-
Notes payable, related parties	-	57,557	-
Total liabilities	-	257,557	-
	$ 332,060	$ (257,557)	$ -

The fair values of our related party debts are deemed to approximate book value, and are considered Level 2 inputs as defined by ASC Topic 820-10-35.

There were no transfers of financial assets or liabilities between Level 1 and Level 2 inputs for the three months ended March 31, 2018 and the year ended December 31, 2017.

Note 4 – Accounts Receivable

Accounts receivable was $131,296 and $47,529 at March 31, 2018 and December 31, 2017, respectively. No allowance for doubtful accounts was necessary during the three months ended March 31, 2018 and the years ended December 31, 2017, respectively.

Note 5 – Inventory

Inventories, consisting of material, overhead, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	March 31, 2018	December 31, 2017
Raw materials	$ 341,923	$ 41,375
Finished goods	233,665	266,506
	$ 575,588	$ 307,881

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

Note 6 – Prepaid Expenses

Prepaid expenses included the following as of March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
Prepaid insurance	$ 13,000	$ 11,119
Prepaid advertising	79,554	113,017
Prepaid license fees	37,140	61,961
Prepaid general and administrative expenses	64,563	11,312
	$ 194,257	$ 197,409

Note 7 – Other Assets

Other assets included the following as of March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
Advance to ATM Provider	$ 40,000	$ 40,000
Security deposits	158,500	158,500
	$ 198,500	$ 198,500

Note 8 – Property and Equipment

Property and equipment consist of the following at March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
Office equipment	$ 194,540	$ 191,424
Furniture and fixtures	19,491	18,991
Website development costs	2,324	2,324
Leasehold improvements	1,083,682	1,063,281
Total	1,300,037	1,276,020
Less accumulated depreciation	(327,171)	(283,929)
Property and equipment, net	$ 972,866	$ 992,091

Depreciation and amortization expense totaled $43,242 and $32,800 for the three months ended March 31, 2018 and 2017, respectively.

Note 9 – Accrued Expenses

Accrued expenses included the following as of March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
Accrued state and city taxes	$ 121,686	$ 173,456
Accrued payroll and payroll taxes	90,542	84,919
Accrued interest	-	16,655
Accrued consulting fees	275,000	275,000
	$ 487,228	$ 550,030

Accrued consulting fees consist of an estimated fee that we may be required to pay to settle a disputed contract. This settlement, when and if, it occurs may very well not be settled within the next twelve months, despite being currently recognized as a current liability.

Note 10 – Convertible Notes Payable

Convertible notes payable consist of the following at March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
On January 6, 2016, we entered into a Subscription Agreement with Jeffrey Sloane ("First Sloane Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	$ 100,000	$ 100,000
On June 5, 2015, we entered into a Subscription Agreement with Sandra (Smith) Johnson ("First Johnson Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	100,000	100,000
Convertible notes payable	$ 200,000	$ 200,000

The notes have been presented as current liabilities as they were repaid within the next twelve months pursuant to the pending acquisition by CLS Holdings USA, Inc. The Company recorded interest expense pursuant to the stated interest rates on the convertible notes in the amount of $7,500 and $23,437 for the three months ended March 31, 2018 and 2017, respectively.

Note 11 – Short Term Loans, Related Parties

Notes payable, related parties consist of the following at March 31, 2018 and December 31, 2017, respectively:

	March 31, 2018	December 31, 2017
On various dates, the Company received non-interest bearing, unsecured loan advances, due on demand from Todd Swanson, one of the Company's partners. Aggregate proceeds of $573,270 and $950,000 were contributed to capital on August 31, 2016 and January 1, 2016, respectively.	$ 10,000	$ 10,000
On various dates, the Company received non-interest bearing, unsecured loan advances, due on demand from Deb Freeman, one of the Company's partners. Aggregate proceeds of $31,098 and $60,836 were contributed to capital on August 31, 2016 and January 1, 2016, respectively.	47,557	47,557
Short term loans, related parties	$ 57,557	$ 57,557

Note 12 – Changes in Partners' Capital

Alternative Solutions is a Limited Liability Company organized under the partnership laws of the State of Nevada on April 14, 2014. The original operating agreement authorized to issue up to 5,000 Common Units. A total of 1,000 Units were awarded to four original members, with one (1) additional unit awarded for each one thousand dollars ($1,000) of capital contributed thereafter. Debra Freeman served as the initial Managing Member, and Todd Swanson, Ben Sillitoe and Gary Schnitzer were subsequently added, by amendment, as Managing Members, with Todd Swanson designated as the Principal Manager. The operating agreement, as most recently amended on August 31, 2016, authorizes the issuance of up to 5,000,000 Common Units, which can be divided into multiple types, classes or series. The current capital structure carries three membership classes, as follows:

- Class A LLC Units: Carries voting rights equal to the percentage of LLC Interest held by such Member.
- Class B LLC Units: May be added by a Super Majority vote of Class A Members (Members holding 66 2/3% or more). Class B Members carry no voting rights and are not subject to dilution prior to March 1, 2019.
- Class C LLC Units: May be added by a Super Majority vote of Class A Members, and carry no voting rights.

Unallocated Advance

In February 2018, the Company received $1,800,000 pursuant to the Membership Interest Purchase Agreement with CLS Holdings USA, Inc., in consideration for ten percent (10%) of the ownership interests in Alternative Solutions and its subsidiaries. The ownership change was submitted to the State of Nevada for approval and subsequently approved by the State pursuant to the terms of the sale.

Note 13 – Income Taxes

The Company is a partnership for tax purposes and all taxable gains and losses are passed through to the individual partners, therefore there is no tax asset or liability to be presented by the Company.

Note 14 – Subsequent Events

On May 23, 2018, the Class A Members voted to use $100,000 of the $1,800,000 deposit for working capital to support ongoing operations and to finance growth in wholesale inventory.

On June 28, 2018, CLS Holdings USA, Inc. ("CLS") 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 closing occurred pursuant to a Membership Interest Purchase Agreement (the "Acquisition Agreement") entered into between CLS and Alternative Solutions on December 4, 2017, as amended.

Pursuant to the Acquisition Agreement, CLS 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, CLS applied for regulatory approval to own an interest in the Oasis LLCs, which approval was subsequently received. On June 27, 2018, CLS made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $6,200,000, 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"). CLS will now apply for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which we expect to receive in due course. The change of ownership in the Oasis LLCs to CLS will be recorded upon receipt of such regulatory approvals.

On June 28, 2018, the Company repaid a total of $222,500 of convertible notes, consisting of $200,000 of principal, $7,500 of interest and an additional $15,000 recognized as a loss on early extinguishment of the debt, out of the proceeds received by the partners from CLS Holdings USA, Inc. commensurate with the Membership Interest Purchase Agreement with CLS Holdings USA, Inc.

On June 28, 2018, the Company repaid a total of $57,557 of short term loans from related parties out of the proceeds received by the partners from CLS Holdings USA, Inc. commensurate with the Membership Interest Purchase Agreement with CLS Holdings USA, Inc.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS	March 31, 2018 (Unaudited)	December 31, 2017
Current assets:		
Cash	$ 1,849,955	$ 332,060
Accounts receivable	131,296	47,529
Inventory	575,588	307,881
Prepaid expenses	194,257	197,409
Total current assets	2,751,096	884,879
Other assets	198,500	198,500
Property and equipment, net	972,866	992,091
Total assets	$ 3,922,462	$ 2,075,470
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 654,559	$ 395,202
Accrued expenses	487,228	550,030
Deferred rent obligation	135,041	134,041
Convertible notes payable	200,000	200,000
Short term loans, related parties	57,557	57,557
Total current liabilities	1,534,385	1,336,830
Total liabilities	1,534,385	1,336,830
Partners capital:		
Class A partner, 2,644,653 Units	(1,439,985)	(1,309,293)
Class B partner, 101,851 Units	766,910	775,128
Class C partner, 301,415 Units	1,011,152	1,022,805
Unallocated contribution	2,050,000	250,000
Total partners' capital	2,388,077	738,640
Total liabilities and partners' capital	$ 3,922,462	$ 2,075,470

See accompanying notes to financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the Three Months Ended March 31, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (150,563)	$ (318,328)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Depreciation and amortization	43,242	32,800
Loss on early extinguishment of loan receivable, related party	-	-
Decrease (increase) in assets:		
Accounts receivable	(83,767)	-
Notes receivable	-	-
Inventory	(267,707)	(9,619)
Prepaid expenses	3,152	22,628
Other assets	-	(1,000)
Increase (decrease) in liabilities:		
Accounts payable	259,357	(8,089)
Accrued expenses	(62,802)	(50,549)
Deferred rent obligations	1,000	12,216
Net cash used in operating activities	(258,088)	(319,941)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(24,017)	-
Net cash used in investing activities	(24,017)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions from partners	1,800,000	162,000
Net cash provided by financing activities	1,800,000	162,000
NET CHANGE IN CASH	1,517,895	(157,941)
CASH AT BEGINNING OF PERIOD	332,060	919,879
CASH AT END OF PERIOD	$ 1,849,955	$ 761,938
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 24,155	$ 46,875
Income taxes paid	$ -	$ -

See accompanying notes to financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
Revenue	$ 2,006,844	$ 337,314
Cost of goods sold	1,266,418	197,649
Gross Profit	740,426	139,665
Operating expenses:		
General and administrative	772,962	366,749
Professional fees	37,285	13,107
Guaranteed payments to members	30,000	21,900
Depreciation and amortization	43,242	32,800
Total operating expenses	883,489	434,556
Net operating loss	(143,063)	(294,891)
Other income (expense):		
Interest expense	(7,500)	(23,437)
Total other income (expense)	(7,500)	(23,437)
Net loss	$ (150,563)	$ (318,328)

See accompanying notes to financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL
For the years ended December 31, 2017 and 2016

	Unallocated Advance	Class A Partners	Class B Partners	Class C Partners	Total
Partners' capital at December 31, 2015	$ -	$ (76,615)	$ -	$ -	$ (76,615)
Capital contributions, 13,590 Class A LLC Units	-	63,303	-	-	63,303
Debt exchanged, 1,457 Class A LLC Units	-	1,615,204	-	-	1,615,204
Debt converted, 86,777 Class B LLC Units	-	-	500,000	-	500,000
Subscriptions, 206,484 Class C LLC Units	-	-	-	1,115,000	1,115,000
Net loss for the year ended December 31, 2016	-	(1,865,648)	(68,406)	(138,682)	(2,072,736)
Partners' capital at December 31, 2016	$ -	$ (263,756)	$ 431,594	$ 976,318	$ 1,144,156
Capital contributions, -0- Class A LLC Units	250,000	250,000	-	-	500,000
Debt converted, 64,931 Class B LLC Units	-	-	425,000	-	425,000
Subscriptions, 30,000 Class C LLC Units	-	-	-	162,000	162,000
Net loss for the year ended December 31, 2017	-	(1,295,537)	(81,466)	(115,513)	(1,492,516)
Partners' capital at December 31, 2017	$ 250,000	$ (1,309,293)	$ 775,128	$ 1,022,805	$ 738,640
Capital contribution	1,800,000	-	-	-	1,800,000
Net loss for the three months ended March 31, 2018	-	(130,692)	(8,218)	(11,653)	(150,563)
Partners' capital at March 31, 2018	$ 2,050,000	$ (1,439,985)	$ 766,910	$ 1,011,152	$ 2,388,077

See accompanying notes to financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
NET LOSS ALLOCATION TO PARTNERS FOR FS PRESENTATION PURPOSES ONLY

Units Outstanding	Class A	Class B	Class C	Total	
Unit Balances, 12/31/15	1,014	-	-	1,014	
Percentage	100.00%	0.00%	0.00%	100.00%	
Net Loss, 12/31/15	(1,200,079)	-	-	(1,200,079)	
Unit Balances, 12/31/16	2,777,777	101,851	206,484	3,086,112	-
Percentage	90.01%	3.30%	6.69%	100.00%	
Net Loss, 12/31/16	(1,865,648)	(68,407)	(138,682)	(2,072,736)	
Unit Balances, 12/31/17	2,652,290	166,782	236,484	3,055,556	-
Percentage	86.80%	5.46%	7.74%	100.00%	
Net Loss, 12/31/17	(1,295,537)	(81,466)	(115,513)	(1,492,516)	
Unit Balances, 3/31/18	2,652,290	166,782	236,484	3,055,556	-
Percentage	86.80%	5.46%	7.74%	100.00%	
Net Loss, 3/31/18	(130,692)	(8,218)	(11,653)	(150,563)	

ALTERNATIVE SOLUTIONS L.L.C.
(A Nevada Corporation)

CONSOLIDATED FINANCIAL STATEMENTS
For the Years Ended December 31, 2017 and 2016

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Alternative Solutions, LLC.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial condition of Alternative Solutions, LLC (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in partner's capital, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continues as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company suffered a net loss from operations and has a net capital deficiency, which raises substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters are described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ M&K CPAS, PLLC

We have served as the Company's auditor since 2017.

Houston, TX

May 25, 2018

[BS]

[IS]

[SSHE]

[CF]

Note 1 – Basis of Presentation and Significant Accounting Policies

Business
Alternative Solutions L.L.C. ("Alternative Solutions") is a partnership that was formed under the laws of the State of Nevada on April 14, 2014. Alternative Solutions oversees various wholly-owned subsidiaries involved in the cannabis market in, and around, Las Vegas Nevada. Including, Serenity Wellness Center LLC ("SWC"), doing business as Oasis Cannabis ("Oasis"), an adult-use retail and medical cannabis dispensary, Community Oasis LLC, a licensed art gallery and multipurpose community facility adjacent to Oasis Cannabis, Serenity Wellness Products LLC ("SWP"), a cannabis production company, and Serenity Wellness Growers LLC ("SWG"), a cannabis cultivation company. All wholly-owned subsidiaries are in the form of Nevada domestic limited liability companies.

Basis of Presentation
Our consolidated financial statements are prepared using the accrual method of accounting as generally accepted in the United States of America (U.S. GAAP) and the rules of the Securities and Exchange Commission (SEC).

Principles of Consolidation
The accompanying consolidated financial statements include the accounts of the following entities, all of which are under common control and ownership:

Name of Entity [1]	State of Incorporation	Relationship	Abbreviated Reference
Alternative Solutions L.L.C. [2]	Nevada	Parent	Alternative Solutions
Serenity Wellness Center LLC	Nevada	Subsidiary	SWC
DBA/ Oasis Cannabis	Nevada	DBA	Oasis
Serenity Wellness Products LLC	Nevada	Subsidiary	SWP
DBA/ City Trees	Nevada	DBA	City Trees
Serenity Wellness Growers LLC	Nevada	Subsidiary	SWG
DBA/ City Trees	Nevada	Subsidiary	City Trees

[1]Each entity is in the form of a domestic limited liability company.
[2]Alternative Solutions L.L.C. is the parent company of each wholly-owned subsidiary.

The consolidated financial statements herein contain the operations of the wholly-owned subsidiaries listed above. All significant inter-company transactions have been eliminated in the preparation of these financial statements. The parent company, Alternative Solutions, and subsidiaries noted above, will be collectively referred to herein as the "Company", "Alternative Solutions" or "Oasis". The Company's headquarters are located in Las Vegas, Nevada and substantially all of its current customers are within the United States, more specifically, Las Vegas, Nevada.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein.

Segment Reporting
Under FASB ASC 280-10-50, the Company operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

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

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Cash and Cash Equivalents
The Company maintains cash balances in non-interest-bearing accounts, which do not currently exceed federally insured limits. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Allowance for Doubtful Accounts
We generate the majority of our revenues and corresponding accounts receivable from the sale cannabis, and cannabis related products. We evaluate the collectability of our accounts receivable considering a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off experience and the length of time the receivables are past due. We had no debts expense during the years ended December 31, 2017 and 2016, respectively.

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

Fair Value of Financial Instruments
Under FASB ASC 820-10-05, the Financial Accounting Standards Board establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement reaffirms that fair value is the relevant measurement attribute. The adoption of this standard did not have a material effect on the Company's financial statements as reflected herein. The carrying amounts of cash, prepaid expenses and accrued expenses reported on the balance sheet are estimated by management to approximate fair value primarily due to the short term nature of the instruments.

Basic and Diluted Loss Per Share
The basic net loss per common share is computed by dividing the net loss by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing the net loss adjusted on an "as if converted" basis, by the weighted average number of common shares outstanding plus potential dilutive securities. For the periods presented, potential dilutive securities had an anti-dilutive effect and were not included in the calculation of diluted net loss per common share.

Deferred Rent Obligation
The Company has entered into operating lease agreements for its dispensary/corporate office and grow facility which contain provisions for future rent increases. In accordance with generally accepted accounting principles, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent obligation," which is reflected as a separate line item in the accompanying Balance Sheets.

Revenue Recognition
Sales on fixed price contracts are recorded when services are earned, the earnings process is complete or substantially complete, and the revenue is measurable and collectability is reasonably assured. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. The Company defers any revenue from sales in which payment has been received, but the earnings process has not occurred. Amounts billed in advance of the period in which service is rendered are recorded as a liability under "Deferred revenues".

Note 1 – Basis of Presentation and Significant Accounting Policies (Continued)

Advertising and Promotion
All costs associated with advertising and promoting products are expensed as incurred with the exception of the amortization of the cost of two major video productions. A music video and reality/lifestyle video were both produced in 2017. The remaining amount that hasn't been expensed is listed on the schedule in Note 5. Total recognized advertising and promotion expenses were $351,841 and $180,227 for the years ended December 31, 2017 and 2016, respectively.

Stock-Based Compensation
Under FASB ASC 718-10-30-2, all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The Company had no stock based compensation expense for the years ended December 31, 2017 and 2016, respectively.

Recent Accounting Pronouncements
Effective January 1, 2018, the Company adopted Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on the Company's financial statements as a result of adopting Topic 606 for the years ended December 31, 2018 and 2017.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting.* ASU 2017-09, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Per ASU 2017-9, an entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in ASU 2017-9. ASU 2017-9 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The adoption of *ASU 2017-9* is not expected to have a material impact on the Company's financial statements or related disclosures.

No other new accounting pronouncements, issued or effective during the years ended December 31, 2017 and 2016, have had or are expected to have a significant impact on the Company's financial statements.

Note 2 – Going Concern

As shown in the accompanying financial statements, the Company has insufficient cash on hand, a working capital deficit of $451,951 and incurred net losses from operations resulting in an accumulated deficit of $4,765,331 that has been distributed to the partners' capital accounts, and used $986,243 of cash from operations during the year ended December 31, 2017. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company is currently seeking additional sources of capital to fund short term operations. The Company, however, is dependent upon its ability to secure equity and/or debt financing and there are no assurances that the Company will be successful; therefore, without sufficient financing it would be unlikely for the Company to continue as a going concern.

The financial statements do not include any adjustments that might result from the outcome of any uncertainty as to the Company's ability to continue as a going concern. The financial statements also do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classifications of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3 – Fair Value of Financial Instruments

Under FASB ASC 820-10-5, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and liabilities must be measured at fair value, and FASB ASC 820-10-50 details the disclosures that are required for items measured at fair value.

The Company has certain financial instruments that must be measured under the new fair value standard. The Company's financial assets and liabilities are measured using inputs from the three levels of the fair value hierarchy. The three levels are as follows:

> Level 1 - Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
>
> Level 2 - Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).
>
> Level 3 - Unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability.

Note 3 – Fair Value of Financial Instruments (Continued)

The following schedule summarizes the valuation of financial instruments at fair value on a recurring basis in the balance sheets as of December 31, 2017 and 2016, respectively:

	Fair Value Measurements at December 31, 2017		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 332,060	$ -	$ -
Total assets	332,060	-	-
Liabilities			
Convertible note payable, related parties	-	200,000	-
Notes payable, related parties	-	57,557	-
Total liabilities	-	257,557	-
	$ 332,060	$ (257,557)	$ -

	Fair Value Measurements at December 31, 2016		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 919,879	$ -	$ -
Total assets	919,879	-	-
Liabilities			
Convertible note payable, related parties	-	625,000	-
Notes payable, related parties	-	57,557	-
Total liabilities	-	682,557	-
	$ 919,879	$ (682,557)	$ -

The fair values of our related party debts are deemed to approximate book value, and are considered Level 2 inputs as defined by ASC Topic 820-10-35.

There were no transfers of financial assets or liabilities between Level 1, Level 2 and Level 3 inputs for the years ended December 31, 2017 and 2016.

Note 4 – Accounts Receivable

Accounts receivable was $47,529 and $-0- at December 31, 2017 and 2016, respectively. No allowance for doubtful accounts was necessary during the years ended December 31, 2017 and 2016, respectively.

Note 5 – Inventory

Inventories, consisting of material, overhead, labor, and manufacturing overhead, are stated at the lower of cost (first-in, first-out) or market and consist of the following:

	December 31, 2017	December 31, 2016
Raw materials	$ 41,375	$ -
Finished goods	266,506	73,785
	$ 307,881	$ 73,785

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

Note 6 – Prepaid Expenses

Prepaid expenses included the following as of December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
Prepaid insurance	$ 11,119	$ -
Prepaid advertising	113,017	-
Prepaid license fees	61,961	43,683
Prepaid general and administrative expenses	11,312	5,944
	$ 197,409	$ 49,627

Note 7 – Other Assets

Other assets included the following as of December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
Advance to ATM Provider	$ 40,000	$ -
State and City Bonds	-	250,000
Security deposits	158,500	157,500
	$ 198,500	$ 407,500

Note 8 – Property and Equipment

Property and equipment consist of the following at December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
Office equipment	$ 191,424	$ 136,696
Furniture and fixtures	18,991	16,385
Website development costs	2,324	2,324
Leasehold improvements	1,063,281	857,039
Total	1,276,020	1,012,444
Less accumulated depreciation	(283,929)	(128,455)
Property and equipment, net	$ 992,091	$ 883,989

Depreciation and amortization expense totaled $155,474 and $125,770 for the years ended December 31, 2017 and 2016, respectively.

Note 9 – Accrued Expenses

Accrued expenses included the following as of December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
Accrued state and city taxes	$ 173,456	$ 62,881
Accrued payroll and payroll taxes	84,919	20,007
Accrued interest	16,655	23,438
Accrued consulting fees	275,000	275,000
	$ 550,030	$ 381,326

Accrued consulting fees consist of an estimated fee that we may be required to pay to settle a disputed contract. This settlement, when and if, it occurs may very well not be settled within the next twelve months, despite being currently recognized as a current liability.

Note 10 – Convertible Notes Payable

Convertible notes payable consist of the following at December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
On January 6, 2016, we entered into a Subscription Agreement with Jeffrey Sloane ("First Sloane Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	$ 100,000	$ 100,000
On December 18, 2015, we entered into a Subscription Agreement with Archie Perry ("Second Perry Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	-
On November 30, 2015, we entered into a Subscription Agreement with Jeffrey Hellman ("Second Hellman Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	100,000
On September 10, 2015, we entered into a Subscription Agreement with Archie Perry ("First Perry Note") for $300,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	-

Note 10 – Convertible Notes Payable (Continued)

	December 31, 2017	December 31, 2016
On June 29, 2015, we entered into a Subscription Agreement with MYJ Holdings, LLC ("First MYJ Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	-
On June 23, 2015, we entered into a Subscription Agreement with Jeffrey Hellman ("First Hellman Note") for $125,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	125,000
On June 10, 2015, we entered into a Subscription Agreement with the Nevins Family Trust ("First Nevins Note") for $200,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	-	200,000
On June 5, 2015, we entered into a Subscription Agreement with Sandra (Smith) Johnson ("First Johnson Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of the Company's operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bears interest at 15%, due and payable on November 30, 2023, and the principal is convertible into Class B LLC Units of the Company at a price based upon a total Company valuation of twenty million dollars ($20,000,000). Interest is to be paid quarterly, in arrears.	100,000	100,000
Convertible notes payable	$ 200,000	$ 625,000

The notes have been presented as current liabilities as they are expected to be converted or repaid within the next twelve months pursuant to the pending acquisition by CLS Holdings USA, Inc. The Company recorded interest expense pursuant to the stated interest rates on the convertible notes in the amount of $87,110 and $140,024 for the years ended December 31, 2017 and 2016, respectively.

Note 11 – Short Term Loans, Related Parties

Notes payable, related parties consist of the following at December 31, 2017 and 2016, respectively:

	December 31, 2017	December 31, 2016
On various dates, the Company received non-interest bearing, unsecured loan advances, due on demand from Todd Swanson, one of the Company's partners. Aggregate proceeds of $573,270 and $950,000 were contributed to capital on August 31, 2016 and January 1, 2016, respectively.	$ 10,000	$ 10,000
On various dates, the Company received non-interest bearing, unsecured loan advances, due on demand from Deb Freeman, one of the Company's partners. Aggregate proceeds of $31,098 and $60,836 were contributed to capital on August 31, 2016 and January 1, 2016, respectively.	47,557	47,557
Short term loans, related parties	$ 57,557	$ 57,557

Note 12 – Changes in Partners' Capital

Alternative Solutions is a Limited Liability Company organized under the partnership laws of the State of Nevada on April 14, 2014. The original operating agreement authorized to issue up to 5,000 Common Units. A total of 1,000 Units were awarded to four original members, with one (1) additional unit awarded for each one thousand dollars ($1,000) of capital contributed thereafter. Debra Freeman served as the initial Managing Member, and Todd Swanson, Ben Sillitoe and Gary Schnitzer were subsequently added, by amendment, as Managing Members, with Todd Swanson designated as the Principal Manager. The operating agreement, as most recently amended on August 31, 2016, authorizes the issuance of up to 5,000,000 Common Units, which can be divided into multiple types, classes or series. The current capital structure carries three membership classes, as follows:

- Class A LLC Units: Carries voting rights equal to the percentage of LLC Interest held by such Member.
- Class B LLC Units: May be added by a Super Majority vote of Class A Members (Members holding 66 2/3% or more). Class B Members carry no voting rights and are not subject to dilution prior to March 1, 2019.
- Class C LLC Units: May be added by a Super Majority vote of Class A Members, and carry no voting rights.

<u>Unallocated Advance (2017)</u>
On December 4, 2017, the Company received a non-refundable contribution of $250,000 pursuant to the Membership Interest Purchase Agreement with CLS Holdings USA, Inc. The ownership contribution will be allocated at the scheduled closing in 2018.

<u>Class A LLC Units Contributed (2017)</u>
During the year ended December 31, 2017, Class A Members contributed a total of $250,000 in cash. The Class A Members agreed not to add new Units to their ownership percentage so as to not dilute minority interests.

<u>Class A LLC Units Contributed (2016)</u>
During the year ended December 31, 2016, Class A Members contributed a total of $63,303 in cash, representing 13,590 Units.

<u>Class A LLC Units Contributed via Debt Exchange (2016)</u>
During the year ended December 31, 2016, two Class A Members exchanged an aggregate $1,615,204 of outstanding debt for a total of 1,457 Class A LLC Units.

Note 12 – Changes in Partners' Capital (Continued)

Class B LLC Units Contributed via Debt Conversion (2017)
On November 22, 2017, a Convertible Noteholder converted $200,000 of outstanding debt for 30,556 Class B LLC Units, based on a total Company valuation of $20,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $34,998 over the $165,002 fair value of the units converted. The related party gain was recognized back against equity and had no effect on the Company's Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

On November 22, 2017, another Convertible Noteholder converted $225,000 of outstanding debt for 34,375 Class B LLC Units, based on a total Company valuation of $20,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $39,375 over the $185,625 fair value of the units converted. The related party gain was recognized back against equity and had no effect on the Company's Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

Class B LLC Units Contributed via Debt Conversion (2016)
On August 15, 2016, a Convertible Noteholder converted $400,000 of outstanding debt for 69,422 Class B LLC Units, based on a total Company valuation of $15,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $25,121 over the $374,879 fair value of the units converted. The related party gain was recognized back against equity and had no effect on the Company's Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

On August 15, 2016, another Convertible Noteholder converted $100,000 of outstanding debt for 17,355 Class B LLC Units, based on a total Company valuation of $15,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $6,283 over the $93,717 fair value of the units converted. The related party gain was recognized back against equity and had no effect on the Company's Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

Class C LLC Units Contributed (2017)
On March 16, 2017, a new Class C Member contributed $162,000 in cash, representing 30,000 Units.

Class C LLC Units Contributed (2016)
During the year ended December 31, 2016, a total of seven new partners contributed an aggregate $1,115,000 of capital for an aggregate 206,484 Class C LLC Units.

Note 13 – Loss on Early Extinguishment of Loan Receivable, Related Party

On various dates between August 1, 2014 and August 25, 2016, the Company paid an aggregate total of $525,630 on the acquisition of property on behalf of SWC Real Estate, LLC, an entity under the control of Todd Swanson, the Company's managing member. On August 25, 2016, the Company and Mr. Swanson agreed to modify the loan to the estimated present value of the property, resulting in a loss of $375,630 recognized during the year ended December 31, 2016, as presented in other expense within the Statements of Operations. Commensurate with the modification of the loan receivable, Mr. Swanson repaid the balance of $150,000.

Note 14 – Income Taxes

The Company is a partnership for tax purposes and all taxable gains and losses are passed through to the individual partners, therefore there is no tax asset or liability to be presented by the Company.

Note 15 – Future Minimum Lease Payments

Effective January 1, 2015, we leased our office/dispensary space in Las Vegas, Nevada under a 5-year operating lease expiring December 31, 2019, and is renewable for an additional five years upon expiration. The lease provides for increases in future minimum annual rental payments based on defined annual increases beginning with monthly payments of $7,500 and culminating in a monthly payment of $8,441 in 2019. The total amount of rental payments due over the lease term is being charged to rent expense according to the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid was credited or charged to "Deferred rent obligation," in the accompanying Balance Sheets. The deferred rent obligation attributable to this lease was $8,512 and $8,429 at December 31, 2017 and 2016, respectively.

Effective January 11, 2016, SWG leased a commercial building for its cannabis production and cultivation business in North Las Vegas. The 5-year operating lease expires on February 28, 2021, and is renewable for another 5 year term. The lease provides for increases in future minimum annual rental payments based on defined annual increases beginning with monthly payments of $22,000 and culminating in a monthly payment of $29,000 in 2021. The total amount of rental payments due over the lease term is being charged to rent expense according to the straight-line method over the term of the lease. The difference between rent expense recorded and the amount paid will be credited or charged to "Deferred rent obligation," in the Balance Sheets. The deferred rent obligation attributable to this lease was $125,529 and $76,748 at December 31, 2017 and 2016, respectively.

Future minimum lease payments required under operating leases according to our fiscal year-end are as follows:

Year Ending December 31,	Amount
2018	$ 356,345
2019	401,296
2020	348,000
2021	58,000
Thereafter	-
	$ 1,163,641

Rent expense was $389,520 and $329,218 for the years ended December 31, 2017 and 2016, respectively.

Note 16 – Subsequent Events

During the first quarter of 2018, the Company received $1,800,000 pursuant to the Membership Interest Purchase Agreement with CLS Holdings USA, Inc., in consideration for ten percent (10%) of the ownership interests in Alternative Solutions and its subsidiaries. The ownership change has been submitted to the State of Nevada for approval and the parties are awaiting approval pursuant to the terms of the sale.

On May 23, 2018, the Class A Members voted to use $100,000 of the $1,800,000 deposit for working capital to support ongoing operations and to finance growth in wholesale inventory.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash	$ 332,060	$ 919,879
Accounts receivable	47,529	-
Inventory	307,881	73,785
Prepaid expenses	197,409	49,627
Total current assets	884,879	1,043,291
Other assets	198,500	407,500
Property and equipment, net	992,091	883,989
Total assets	$ 2,075,470	$ 2,334,780
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 395,202	$ 41,564
Accrued expenses	550,030	381,326
Deferred rent obligation	134,041	85,177
Convertible notes payable	200,000	625,000
Short term loans, related parties	57,557	57,557
Total current liabilities	1,336,830	1,190,624
Total liabilities	1,336,830	1,190,624
Partners capital:		
Class A partner, 2,644,653 Units	(1,309,293)	(263,756)
Class B partner, 101,851 Units	775,128	431,594
Class C partner, 301,415 Units	1,022,805	976,318
Unallocated contribution	250,000	-
Total partners' capital	738,640	1,144,156
Total liabilities and partners' capital	$ 2,075,470	$ 2,334,780

The accompanying notes are an integral part of these financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (1,492,516)	$ (2,072,736)
Adjustments to reconcile net loss		
to net cash used in operating activities:		
Depreciation and amortization	155,474	125,770
Loss on early extinguishment of loan receivable, related party	-	375,630
Decrease (increase) in assets:		
Accounts receivable	(47,529)	-
Notes receivable	(40,000)	239,176
Inventory	(234,096)	25,947
Prepaid expenses	(147,782)	13,404
Other assets	249,000	(48,000)
Increase (decrease) in liabilities:		
Accounts payable	353,638	(37,873)
Accrued expenses	168,704	321,158
Deferred rent obligations	48,864	79,613
Net cash used in operating activities	(986,243)	(977,911)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(263,576)	(118,167)
Net cash used in investing activities	(263,576)	(118,167)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions from partners	662,000	1,178,303
Proceeds from convertible notes payable, related party	-	100,000
Proceeds received from short term loans, related party	-	901,125
Repayments on short term loans, related party	-	(239,200)
Net cash provided by financing activities	662,000	1,940,228
NET CHANGE IN CASH	(587,819)	844,150
CASH AT BEGINNING OF PERIOD	919,879	75,729
CASH AT END OF PERIOD	$ 332,060	$ 919,879
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 100,987	$ 156,473
Income taxes paid	$ -	$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Convertible debt converted to capital	$ 425,000	$ 500,000
Related party debt exchanged for capital	$ -	$ 1,615,204

The accompanying notes are an integral part of these financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31, 2017	2016
Revenue	$ 4,546,210	$ 1,263,262
Cost of goods sold	2,878,110	1,085,115
Gross Profit	1,668,100	178,147
Operating expenses:		
General and administrative	2,666,602	1,419,948
Professional fees	134,336	93,285
Guaranteed payments to members	110,000	89,250
Depreciation and amortization	155,474	125,770
Total operating expenses	3,066,412	1,728,253
Net operating loss	(1,398,312)	(1,550,106)
Other income (expense):		
Interest expense	(94,204)	(147,000)
Loss on early extinguishment of loan receivable, related party	-	(375,630)
Total other income (expense)	(94,204)	(522,630)
Net loss	$ (1,492,516)	$ (2,072,736)

The accompanying notes are an integral part of these financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
CONSOLIDATED STATEMENT OF CHANGES IN PARTNERS' CAPITAL
For the years ended December 31, 2017 and 2016

	Unallocated Advance	Class A Partners	Class B Partners	Class C Partners	Total
Partners' capital at December 31, 2015	$ -	$ (76,615)	$ -	$ -	$ (76,615)
Capital contributions, 13,590 Class A LLC Units	-	63,303	-	-	63,303
Debt exchanged, 1,457 Class A LLC Units	-	1,615,204	-	-	1,615,204
Debt converted, 86,777 Class B LLC Units	-	-	500,000	-	500,000
Subscriptions, 206,484 Class C LLC Units	-	-	-	1,115,000	1,115,000
Net loss for the year ended December 31, 2016	-	(1,865,648)	(68,406)	(138,682)	(2,072,736)
Partners' capital at December 31, 2016	$ -	$ (263,756)	$ 431,594	$ 976,318	$ 1,144,156
Capital contributions, -0- Class A LLC Units	250,000	250,000	-	-	500,000
Debt converted, 64,931 Class B LLC Units	-	-	425,000	-	425,000
Subscriptions, 30,000 Class C LLC Units	-	-	-	162,000	162,000
Net loss for the year ended December 31, 2017	-	(1,295,537)	(81,466)	(115,513)	(1,492,516)
Partners' capital at December 31, 2017	$ 250,000	$ (1,309,293)	$ 775,128	$ 1,022,805	$ 738,640

The accompanying notes are an integral part of these financial statements.

ALTERNATIVE SOLUTIONS L.L.C.
NET LOSS ALLOCATION TO PARTNERS FOR FS PRESENTATION PURPOSES ONLY

Units Outstanding	Class A	Class B	Class C	Total	
Unit Balances, 12/31/15	1,014	-	-	1,014	
Percentage	100.00%	0.00%	0.00%	100.00%	
Net Loss, 12/31/15	(1,200,079)	-	-	(1,200,079)	
Unit Balances, 12/31/16	2,777,777	101,851	206,484	3,086,112	-
Percentage	90.01%	3.30%	6.69%	100.00%	
Net Loss, 12/31/16	(1,865,648)	(68,407)	(138,682)	(2,072,736)	
Unit Balances, 12/31/17	2,652,290	166,782	236,484	3,055,556	-
Percentage	86.80%	5.46%	7.74%	100.00%	
Net Loss, 12/31/17	(1,295,537)	(81,466)	(115,513)	(1,492,516)	

SCHEDULE "D"

MD&A OF ALTERNATIVE SOLUTIONS

[See attached.]

OVERVIEW AND OUTLOOK

Alternative Solutions L.L.C. ("Alternative Solutions") is a limited liability company that was formed under the laws of the State of Nevada on April 14, 2014. Alternative Solutions has three wholly-owned subsidiaries involved in the cannabis market in and around Las Vegas Nevada, including, Serenity Wellness Center LLC ("SWC"), doing business as Oasis Cannabis ("Oasis"), an adult-use retail and medical cannabis dispensary, Serenity Wellness Products LLC ("SWP"), a cannabis extraction, conversion and processing company, and Serenity Wellness Growers LLC ("SWG"), a cannabis cultivation company. Alternative Solutions also owns Community Oasis LLC, a multipurpose community facility, which is adjacent to Oasis. All wholly-owned subsidiaries are Nevada limited liability companies.

On January 4, 2018, the Attorney General of the United States issued new written guidance concerning the enforcement of federal laws relating to marijuana. The Attorney General's memorandum stated that previous DOJ guidance specific to marijuana enforcement, including the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, the "Cole Memo") is unnecessary and is rescinded, effective immediately. The Cole Memo told federal prosecutors that in states that had legalized marijuana, they should use their prosecutorial discretion to focus not on businesses that comply with state regulations, but on illicit enterprises that create harms like selling drugs to children, operating with criminal gangs, and selling across state lines. In addition, since 2014, the federal budget has prohibited the DOJ from using federal funds to prosecute medical cannabis businesses pursuant to a budget rider, which must be renewed annually and is presently set to expire on January 19, 2018. The Attorney General has now advised that it will be left to the discretion of the local US attorneys in the various districts to decide how and when to enforce the federal marijuana laws. As a result of the Attorney General's recent guidance, it is unclear whether and how US attorneys in states with medical and/or recreational marijuana laws will enforce federal laws relating to the prohibition of the possession, ownership or sale of marijuana, among other things. It is also unclear whether any states will challenge the Attorney General's new pronouncement in the applicable courts. However, as a result of the Attorney General's new guidance, some banks, clearing brokers and other businesses may cease or limit how they do business with companies in the marijuana business to avoid a possible violation of federal law. It is also possible that some US attorneys may begin enforcing federal laws to prevent marijuana businesses that are otherwise validly operating under state laws, from conducting business. Thus, regardless of whether the Attorney General's new pronouncement is enforced or found to be lawful, it could have a material adverse impact on the marijuana industry, including our business.

During the first quarter of 2018, Alternative Solutions received $1,800,000 pursuant to a Membership Interest Purchase Agreement dated December 4, 2017, as emended (the "Acquisition Agreement") with CLS Holdings USA, Inc. ("CLS"), in consideration for ten percent (10%) of the ownership interests in Alternative Solutions and its subsidiaries. This payment was in addition to the first deposit CLS paid to Alternative Solutions in the amount of $250,000 during the fourth quarter of 2017. The ownership change was approved by the State of Nevada on June 21, 2018.

On June 28, 2018, CLS 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). Pursuant to the Acquisition Agreement, at the closing, CLS paid the following consideration to the owners of the membership interests in Alternative Solutions and the Oasis LLCs: cash in the amount of $6,200,000, a $4.0 million promissory note due in December 2019, and 22,058,823 shares of its common stock. CLS then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it expects to receive in due course. The change of ownership in the Oasis LLCs to CLS will be recorded upon receipt of such regulatory approvals.

Critical Accounting Policies

Basis of Presentation

Alternative Solutions' consolidated financial statements are prepared using the accrual method of accounting as generally accepted in the United States of America ("U.S. GAAP") and the rules of the Securities and Exchange Commission ("SEC").

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the following entities, all of which are under common control and ownership:

Name of Entity [1]	State of Incorporation	Relationship	Abbreviated Reference
Alternative Solutions L.L.C. [2]	Nevada	Parent	Alternative Solutions
Serenity Wellness Center LLC	Nevada	Subsidiary	SWC
Serenity Wellness Products LLC	Nevada	Subsidiary	SWP
Serenity Wellness Growers LLC	Nevada	Subsidiary	SWG

(1)Each entity is a Nevada limited liability company.
(2)Alternative Solutions L.L.C. is the parent company of each of SWC, SWP and SWG.

The consolidated financial statements include the operations of SWC, SWP and SWG. All significant inter-company transactions have been eliminated in the preparation of these financial statements. The parent company, Alternative Solutions, and subsidiaries noted above, are collectively referred to as "Alternative Solutions" or "Oasis". The headquarters of Alternative Solutions is located in Las Vegas, Nevada and substantially all of its current customers are within the United States, more specifically, Las Vegas, Nevada.

These statements reflect all adjustments, consisting of normal recurring adjustments, which in the opinion of management are necessary for fair presentation of the information contained therein.

Segment Reporting

Under FASB ASC 280-10-50, Alternative Solutions operates as a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Use of Estimates

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

Cash and Cash Equivalents

Alternative Solutions maintains cash balances in non-interest-bearing accounts, which do not currently exceed federally insured limits. For the purpose of the statements of cash flows, all highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Allowance for Doubtful Accounts

We generate the majority of our revenues and corresponding accounts receivable from the sale of cannabis and cannabis related products. We evaluate the collectability of our accounts receivable considering a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us, we record a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on past write-off experience and the length of time the receivables are past due. We had no bad debt expense during the three months ended March 31, 2018 or the years ended December 31, 2017 and 2016, respectively.

Cash in Excess of FDIC Insured Limits

The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to $250,000, under current regulations. The Company had $1,550,000 of funds in excess of FDIC insured limits at March 31, 2018. The Company has not experienced any losses in such accounts.

Inventory

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

Fair Value of Financial Instruments

Under FASB ASC 820-10-05, the Financial Accounting Standards Board establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement reaffirms that fair value is the relevant measurement attribute. The adoption of this standard did not have a material effect on Alternative Solutions' financial statements as reflected herein. The carrying amounts of cash, prepaid expenses and accrued expenses reported on the balance sheet are estimated by management to approximate fair value primarily due to the short term nature of the instruments.

Deferred Rent Obligation

Alternative Solutions has entered into operating lease agreements for its dispensary/corporate office and grow facility, which contain provisions for future rent increases. In accordance with generally accepted accounting principles, Alternative Solutions records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease terms. The difference between rent expense recorded and the amount paid is credited or charged to "Deferred rent obligation," which is reflected as a separate line item in the accompanying Balance Sheets.

Revenue Recognition

Sales on fixed price contracts are recorded when services are earned, the earnings process is complete or substantially complete, the revenue is measurable and collectability is reasonably assured. Provisions for discounts and rebates to customers, estimated returns and allowances, and other adjustments are provided for in the same period the related sales are recorded. Alternative Solutions defers any revenue from sales in which payment has been received, but the earnings process has not occurred. Amounts billed in advance of the period in which service is rendered are recorded as a liability under "Deferred revenues".

Advertising and Promotion

All costs associated with advertising and promoting products are expensed as incurred with the exception of the amortization of the cost of two major video productions. A music video and reality/lifestyle video were both produced in 2017. The remaining amount that has not been expensed is listed on the schedule in Note 5. Total recognized advertising and promotion expenses were $123,040 and $43,923 for the three months ended March 31, 2018 and 2017, respectively, and $351,841 and $180,227 for the years ended December 31, 2017 and 2016, respectively.

Recent Accounting Pronouncements

Effective January 1, 2018, Alternative Solutions adopted Accounting Standards Codification ("ASC") 606 — Revenue from Contracts with Customers. Under ASC 606, Alternative Solutions recognizes revenue from the commercial sales of products, licensing agreements and contracts to perform pilot studies by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of service has been rendered to a customer or delivery has occurred; (3) the amount of the fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on Alternative Solutions' financial statements as a result of adopting Topic 606 for the years ended December 31, 2018 and 2017.

In May 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2017-09, *Compensation — Stock Compensation (Topic 718): Scope of Modification Accounting.* ASU 2017-09, which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. Per ASU 2017-9, an entity should account for the effects of a modification unless all the following are met: (1) the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification, (2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified, and (3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The current disclosure requirements in Topic 718 apply regardless of whether an entity is required to apply modification accounting under the amendments in ASU 2017-9. ASU 2017-9 is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for (1) public business entities for reporting periods for which financial statements have not yet been issued and (2) all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied prospectively to an award modified on or after the adoption date. The adoption of *ASU 2017-9* is not expected to have a material impact on Alternative Solutions' financial statements or related disclosures.

No other new accounting pronouncements, issued or effective during the three months ended March 31, 2018 and the years ended December 31, 2017 and 2016, have had or are expected to have a significant impact on Alternative Solutions' financial statements.

Results of Operations for the Years Ended December 31, 2017 and 2016

The following table summarizes selected items from the statements of operations for the years ended December 31, 2017 and 2016.

	Years Ended December 31, 2017	2016	Increase / (Decrease)
Revenues	$ 4,546,210	$ 1,263,262	$ 3,282,948
Cost of goods sold	2,878,110	1,085,115	1,792,995
Gross profit	1,668,100	178,147	1,489,953
Operating expenses:			
General and administrative	2,666,602	1,419,948	1,246,654
Professional fees	134,336	93,285	41,051
Guaranteed payments to members	110,000	89,250	20,750
Depreciation and amortization	155,474	125,770	29,704
Total operating expenses:	3,066,412	1,728,253	1,338,159
Net operating loss	(1,398,312)	(1,550,106)	(151,794)
Total other expenses	(94,204)	(522,630)	(428,426)
Net loss	$ (1,492,516)	$ (2,072,736)	$ (580,220)

Revenues

Revenues were primarily generated by our cannabis dispensary and to a de minimis extent, from our cannabis cultivation and production operations. Aggregate revenues for the year ended December 31, 2017 were $4,546,210, compared to revenues of $1,263,262 during the year ended December 31, 2016, an increase of $3,282,948, or 260%. The increase in revenue was primarily due to the continued growth of our dispensary operations in Nevada as the implementation of the Nevada law permitting the recreational use of marijuana went into effect on July 1, 2017.

Cost of Goods Sold

Cost of goods sold for the year ended December 31, 2017 were $2,878,110, compared to $1,085,115 during the year ended December 31, 2016, an increase of $1,792,995, or 165%. Cost of goods sold consists primarily of purchases, shipping and packaging materials used in our operations. The increased cost of sales in 2017 was primarily due to our increased costs as we ramped up our operations to meet the increased demand as recreational use of marijuana was legalized in the State. Our gross margins during 2017 increased to approximately 37%, compared to gross margins of approximately 14% during the year ended December 31, 2016 as a result of the addition of sales of recreational marijuana during 2017.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2017 were $2,666,602, compared to $1,419,948 during the year ended December 31, 2016, an increase of $1,246,654, or 88%. General and administrative expenses consisted primarily of general office expenses, advertising, rent expense, insurance and payroll expenses. The substantial increase during 2017 was primarily due to increased payroll expenses as we ramped up operations to meet the demand for sales of recreational marijuana, which became permissible effective July 1, 2017. We increased our employees from approximately 25 to approximately 50 to respond to the increase in customers that occurred once we commenced sales of recreational marijuana, and our customer base increased from approximately 70 to several hundred.

Professional Fees

Professional fees for the year ended December 31, 2017 were $134,336, compared to $93,285 during the year ended December 31, 2016, an increase of $41,051, or 44%. This increase was due primarily to increased legal fees as we navigated the new regulations surrounding recreational marijuana during the year ended December 31, 2017, compared to the prior period.

Guaranteed Payments to Members

Guaranteed payments to members for the year ended December 31, 2017 were $110,000, compared to $89,250 during the year ended December 31, 2016, an increase of $20,750, or 23%. This increase was due primarily to a portion of the operating member's compensation being allocated to cost of goods sold during the year ended December 31, 2016. Following our acquisition by CLS in June 2018, we will no longer make these payments.

Depreciation and Amortization

Depreciation and amortization expense for the year ended December 31, 2017 were $155,474, compared to $125,770 during the year ended December 31, 2016, an increase of $29,704, or 24%. This increase was due primarily to the purchase of new depreciable assets related to our cultivation and production activities.

Net Operating Loss

Our operating loss for the year ended December 31, 2017 was $1,398,312, compared to $1,550,106 during the year ended December 31, 2016, a decrease of $151,794, or 10%. Our net operating loss decreased primarily due to increased revenues and gross margins, during the year ended December 31, 2017, compared to the year ended December 31, 2016, which decrease was partially offset by the increase in payroll expenses as we ramped up our staff in 2017 to handle the increased sales related to recreational marijuana.

Other Expense

Other expense for the year ended December 31, 2017 was $94,204, compared to $522,630 during the year ended December 31, 2016, a decrease of $428,426, or 82%. Other expense consisted of $94,204 of interest on loans from members for the year ended December 31, 2017. Other expense during the year ended December 31, 2016 consisted of $147,000 of interest on loans from members and $375,630 from a loss on the early extinguishment of a loan receivable from one of the members.

Net Loss

Net loss for the year ended December 31, 2017 was $1,492,516, compared to $2,072,736 during the year ended December 31, 2016, a decrease of $580,220, or 28%. The decreased net loss was due primarily to increased revenues and gross margins, in addition to the absence of a $375,630 loss on the early extinguishment of a loan receivable from one of the members, during the year ended December 31, 2017, compared to the year ended December 31, 2016.

Results of Operations for the Quarters Ended March 31, 2018 and 2017

The following table summarizes selected items from the statements of operations for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	Increase / (Decrease)
Revenues	$ 2,006,844	$ 337,314	$ 1,669,530
Cost of goods sold	1,266,418	197,649	1,068,769
Gross profit	740,426	139,665	600,761
Operating expenses:			
General and administrative	772,962	366,749	406,213
Professional fees	37,285	13,107	24,178
Guaranteed payments to members	30,000	21,900	8,100
Depreciation and amortization	43,242	32,800	10,442
Total operating expenses:	883,489	434,556	448,933
Net operating loss	(143,063)	(294,891)	(151,828)
Total other expenses	(7,500)	(23,437)	(15,937)
Net loss	$ (150,563)	$ (318,328)	$ (167,765)

Revenues

Revenues were primarily generated by our cannabis dispensary and to a de minimis extent, from our cannabis cultivation and production operations. Aggregate revenues for the three months ended March 31, 2018 were $2,006,844, compared to revenues of $337,314 during the three months ended March 31, 2017, an increase of $1,669,530, or 495%. The increase in revenue was primarily due to the continued growth of our dispensary operations in Nevada as the implementation of the Nevada law permitting the recreational use of marijuana went into effect on July 1, 2017.

Cost of Goods Sold

Cost of goods sold for the three months ended March 31, 2018 were $1,266,418, compared to $197,649 during the three months ended March 31, 2017, an increase of $1,068,769, or 541%. Cost of goods sold consists primarily of purchases, shipping and packaging materials used in our operations. The increased cost of sales in 2018 was primarily due to increased purchases as we ramped up our operations to meet the increased demand as recreational use of marijuana was legalized in the State. Our gross margins during the first three months of 2018 decreased slightly to approximately 37%, compared to gross margins of approximately 41% during the three months ended March 31, 2017. We expect gross margins and gross profit to continue to fluctuate until such time as we complete the first phase of the expansion of our grow and processing facilities, at which time we expect them to increase as we reduce our purchases of raw materials from third parties and increasingly rely on internal sources of raw materials.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2018 were $772,962, compared to $366,749 during the three months ended March 31, 2017, an increase of $406,213, or 111%. General and administrative expenses consisted primarily of general office expenses, advertising, rent expense, insurance and payroll expenses. The substantial increase during the first quarter of 2018 was primarily due to increased payroll expenses as we ramped up operations to meet the demand for sales of recreational marijuana, which became permissible effective July 1, 2017. We increased our employees from approximately 25 to approximately 50 during the third quarter of 2017 to respond to the increase in customers that occurred once we commenced sales of recreational marijuana, and our customer base increased from approximately 70 to several hundred.

Professional Fees

Professional fees for the three months ended March 31, 2018 were $37,285, compared to $13,107 during the three months ended March 31, 2017, an increase of $24,178, or 184%. This increase was due primarily to increased legal and accounting fees as we had our financial statements audited for the first time during the three months ended March 31, 2018, compared to the prior period.

Guaranteed Payments to Members

Guaranteed payments to members for the three months ended March 31, 2018 were $30,000, compared to $21,900 during the three months ended March 31, 2017, an increase of $8,100, or 37%. This increase was due primarily to a portion of the operating member's compensation being allocated to cost of goods sold during the three months ended March 31, 2017. Following our acquisition by CLS in June 2018, we will no longer make these payments.

Depreciation and Amortization

Depreciation and amortization expense for the three months ended March 31, 2018 were $43,242, compared to $32,800 during the three months ended March 31, 2017, an increase of $10,442, or 32%. This increase was due primarily to the purchase of new depreciable assets related to our cultivation and production activities.

Net Operating Loss

Our operating loss for the three months ended March 31, 2018 was $143,063, compared to $294,891 during the three months ended March 31, 2017, a decrease of $151,828, or 51%. Our net operating loss decreased primarily due to increased revenues during the three months ended March 31, 2018, compared to the three months ended March 31, 2017, which decrease was partially offset by the increase in payroll expenses as we ramped up our staff in 2017 to handle the increased sales related to recreational marijuana.

Interest Expense

Interest expense for the three months ended March 31, 2018 was $7,500, compared to $23,437 during the three months ended March 31, 2017, a decrease of $15,937, or 68%. Interest expense during the three months ended March 31, 2018 decreased due to our diminished debts as note holders converted their debt to equity.

Net Loss

Net loss for the three months ended March 31, 2018 was $150,563, compared to $318,328 during the three months ended March 31, 2017, a decrease of $167,765, or 53%. The decreased net loss was due primarily to increased revenues during the three months ended March 31, 2018, compared to the three months ended March 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

The following table summarizes total assets, accumulated deficit, stockholders' equity and working capital at March 31, 2018 compared to December 31, 2017.

	March 31, 2018	December 31, 2017	Increase / (Decrease)
Total Assets	$ 3,922,462	$ 2,075,470	$ 1,846,992
Total Liabilities	$ 1,534,385	$ 1,336,830	$ 197,555
Members' Capital	$ 2,388,077	$ 738,640	$ 1,649,437
Working Capital (Deficit)	$ 1,216,711	$ (451,951)	$ 1,668,662

Sources and Uses of Cash; Liquidity and Capital Needs

As of March 31, 2018, our cash on hand was $1,849,955. Our principal source of operating capital has been provided from related party debt financing, members' capital contributions and revenues from operations. At March 31, 2018, we had a working capital position of $1,216,711. Our working capital is now positive, but we expect that it will fluctuate from positive to negative depending on capitalization, fluctuations in sales as we grow, and increases in our gross margins and operating efficiencies that we expect to achieve with our growth. Assuming we implement our growth plan, we expect our working capital needs to increase. We plan to meet those needs with cash from operations, supplemented by proceeds from additional equity and debt financing. As a result of the change of control that occurred when the Company acquired us, we no longer have access to our prior related party debt funding but believe that we can replace this source of funding, if needed, with sources of funding available to the Company as a public company. Although we have initiated discussions with possible funding sources, we do not presently have any definitive agreement in place to meet our liquidity needs and there can be no assurance that we can obtain any such needed funding on terms that are favorable to us or at all.

During the next twelve months we expect to complete phase 1 and possibly phase 2 of our expansion plan, which includes the substantial expansion of both our grow and production facility. At present, we estimate that we will require up to $3,000,000 to complete phase 1 and up to $2,000,000 to complete phase 2 of this expansion (including development of the outdoor space), including the purchase of the necessary equipment. We expect to fund the cost of this expansion from the proceeds of debt and/or equity capital raises. Although we have had preliminary discussions with potential funding sources, we have not yet entered into any definitive agreements to fund our expansion activities, and thus there can be no assurance that we will be successful in obtaining the required capital to fund this expansion. If we are unable to obtain expansion financing on a timely basis or on favorable terms, our expansion may be delayed and we may be unable to execute on our business plan.

Although our revenues are expected to grow as we expand our operations, our revenues are not expected to exceed our investment and operating costs in the next twelve months, and we do not have funds sufficient to fund our operations at their current level for the next twelve months. 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 successfully navigate any changes that may arise in the cannabis regulatory environment. We cannot assure that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business prospects, financial condition and results of operations.

Debt Instruments, Guarantees, and Related Covenants

On January 6, 2016, we entered into a Subscription Agreement with Jeffrey Sloane ("First Sloane Note") for $100,000, consisting of an unsecured promissory note convertible into Class B LLC Units at the option of the Subscriber only between January 1, 2019 and February 28, 2019, subject to the execution of Alternative Solutions' operating agreement and pursuant to the State and local jurisdictions' authorization. The Note bore interest at 15%, was due and payable on November 30, 2023, and the principal was convertible into Class B LLC Units of Alternative Solutions at a price based upon a total company valuation of twenty million dollars ($20,000,000). Interest was to be paid quarterly, in arrears.

On various dates between January 16, 2015 and February 29, 2016, Alternative Solutions received non-interest bearing, unsecured loan advances, due on demand from Todd Swanson, one of Alternative Solutions' members. Aggregate proceeds of $573,270 and $950,000 were contributed to capital on August 31, 2016 and January 1, 2016, respectively. A balance of $10,000 remained owed to the member as of March 31, 2018.

On various dates between May 11, 2015 and February 29, 2016, Alternative Solutions received non-interest bearing, unsecured loan advances, due on demand from Deb Freeman, one of Alternative Solutions' members. Aggregate proceeds of $31,098 and $60,836 were contributed to capital on August 31, 2016 and January 1, 2016, respectively. A balance of $47,557 remained owed to the member as of March 31, 2018.

All debts owed to the members of Alternative Solutions as of the closing of the acquisition by CLS on June 28, 2018, including the $200,000 of outstanding convertible notes payable and the $57,557 of short term loans, were repaid out of the proceeds of the sale of membership interests.

Membership Contributions

On December 4, 2017, Alternative Solutions received a non-refundable contribution of $250,000, which was a non-refundable deposit made pursuant to the Acquisition Agreement with CLS. The ownership contribution was allocated at the subsequent closing on June 28, 2018.

In February 2018, the Company received an additional $1,800,000 pursuant to the Acquisition Agreement with CLS in consideration for ten percent (10%) of the ownership interests in Alternative Solutions and its subsidiaries. The ownership change was submitted to the State of Nevada for approval and subsequently approved by the State pursuant to the terms of the sale.

Class A LLC Units Contributed (2017)

During the year ended December 31, 2017, Class A Members contributed a total of $250,000 in cash. The Class A Members agreed not to add new Units to their ownership percentage so as to not dilute minority interests.

Class A LLC Units Contributed (2016)

During the year ended December 31, 2016, Class A Members contributed a total of $63,303 in cash, representing 13,590 Units.

Class A LLC Units Contributed via Debt Exchange (2016)

During the year ended December 31, 2016, two Class A Members exchanged an aggregate $1,615,204 of outstanding debt for a total of 1,457 Class A LLC Units.

Class B LLC Units Contributed via Debt Conversion (2017)

On November 22, 2017, a Convertible Noteholder converted $200,000 of outstanding debt for 30,556 Class B LLC Units, based on a total company valuation of $20,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $34,998 over the $165,002 fair value of the units converted. The related party gain was recognized back against equity and had no effect on Alternative Solutions' Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

On November 22, 2017, another Convertible Noteholder converted $225,000 of outstanding debt for 34,375 Class B LLC Units, based on a total company valuation of $20,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $39,375 over the $185,625 fair value of the units converted. The related party gain was recognized back against equity and had no effect on Alternative Solutions' Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

Class B LLC Units Contributed via Debt Conversion (2016)

On August 15, 2016, a Convertible Noteholder converted $400,000 of outstanding debt for 69,422 Class B LLC Units, based on a total company valuation of $15,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $25,121 over the $374,879 fair value of the units converted. The related party gain was recognized back against equity and had no effect on Alternative Solutions' Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

On August 15, 2016, another Convertible Noteholder converted $100,000 of outstanding debt for 17,355 Class B LLC Units, based on a total company valuation of $15,000,000, as approved by a super majority of voting members. The debt conversion resulted in a gain of $6,283 over the $93,717 fair value of the units converted. The related party gain was recognized back against equity and had no effect on Alternative Solutions' Statements of Operations. The Class B LLC Units are not subject to dilution prior to March 1, 2019.

Class C LLC Units Contributed (2017)

On March 16, 2017, a new Class C Member contributed $162,000 in cash, representing 30,000 Units.

Class C LLC Units Contributed (2016)

During the year ended December 31, 2016, a total of seven new members contributed an aggregate $1,115,000 of capital for an aggregate 206,484 Class C LLC Units.

We utilized these funds to comply with our regulatory requirements, and to fund the cannabis business of the Oasis LLCs. On June 28, 2018, the owners of all classes of membership interests in Alternative Solutions closed on the sale of all of their membership interests to CLS.

Going Concern Qualification

We anticipate that we will incur operating losses in the foreseeable future. Therefore, our auditors have raised substantial doubt about our ability to continue as a going concern.

Off- Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of March 31, 2018.

SCHEDULE “E”

PRO FORMA FINANCIAL STATEMENTS

[See attached.]

ALTERNATIVE SOLUTIONS L.L.C. / CLS HOLDINGS USA, INC.
PRO FORMA STATEMENTS OF OPERATIONS
(Unaudited)

	For the Nine Months Ended February 28,		
	Alternative Solutions, LLC	CLS USA Holdings, Inc.	Pro Forma Combined
Revenue	$ 5,139,555	$ -	$ 5,139,555
Cost of goods sold	3,258,388	-	3,258,388
Gross Profit	1,881,167	-	1,881,167
Operating expenses	2,845,491	1,831,554	4,677,045
Net operating loss	(964,324)	(1,831,554)	(2,795,878)
Other income (expense)	(60,141)	(3,760,787)	(3,820,928)
Net loss	$ (1,024,465)	$ (5,592,341)	$ (6,616,806)
Weighted average number of common shares outstanding - basic and fully diluted		35,654,299	57,713,122
Net (loss) per share - basic and fully diluted		$ (0.16)	$ (0.11)

	For the Year Ended May 31, 2017		
	Alternative Solutions, LLC	CLS USA Holdings, Inc.	Pro Forma Combined
Revenue	$ 1,367,196	$ -	$ 1,367,196
Cost of goods sold	1,164,617	-	1,164,617
Gross Profit	202,579	-	202,579
Operating expenses	1,811,702	1,610,955	3,422,657
Net operating loss	(1,609,123)	(1,610,955)	(3,220,078)
Other income (expense):	(459,020)	(3,254,769)	(3,713,789)
Net loss	$ (2,068,143)	$ (4,865,724)	$ (6,933,867)
Weighted average number of common shares outstanding - basic and fully diluted		20,778,785	42,837,608
Net (loss) per share - basic and fully diluted		$ (0.23)	$ (0.16)

CERTIFICATE OF CLS HOLDINGS USA, INC.

Dated August 2, 2018

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation of each of the Qualifying Jurisdictions.

(signed) "Jeffrey Binder"

Jeffrey Binder
President and Chief Executive Officer

(signed) "Frank Tarantino"

Frank Tarantino
Chief Financial Officer

On behalf of the Board of Directors

(signed) "Andrew Glashow"

Andrew Glashow
Director

(signed) "Frank Koretsky"

Frank Koretsky
Director

CERTIFICATE OF THE AGENT

Dated August 2, 2018

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plan disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation of each of the Qualifying Jurisdictions.

CANACCORD GENUITY CORP.

(signed) "Graham Saunders"

Graham Saunders
Vice Chairman, Managing Director
Head of Capital Markets Origination