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, 2020**

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

For the transition period from _____ to _____

Commission File No.: **000-55546**

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

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

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

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

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

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

Securities registered pursuant to Section 12(g) of the 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 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the 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: $20,123,457.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 126,521,416 shares of common stock, par value $0.0001, as of August 24, 2020.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part III of this Annual report on Form 10-K will be incorporated by reference from the Registrant's definitive proxy statement or included in an amendment on Form 10-K/A that will be filed not later than 120 days after the end of the fiscal year ended May 31, 2020.

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Cautionary Note Regarding Forward-Looking Statements

This annual report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which is also referred to as "forward-looking information" that relate to the Company's current expectations and views of future events. The forward-looking information is contained principally in the sections entitled "*Our Business,*" "*Management's Discussion and Analysis*" and "*Risk Factors*".

We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, strategy, short-term and long-term business operations and objectives and financial needs.

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.

Some of these statements relate to the future impact of the COVID-19 virus on our business, the future results of our initiatives to retain our employees and strengthen our relationships with our customers and community during the pandemic, the future effect of our initiatives to retain and expand market share and achieve growth following the pandemic, results of operations during the pandemic, and the effectiveness of our business practices during the pandemic. The continued spread of COVID-19 could have, and in some cases already has had, an adverse impact on our business, operations and financial results, including through disruptions in our processing activities, sales channels, and retail dispensary operations as well as a deterioration of general economic conditions including a possible national or global recession. Due to the speed with which the COVID-19 situation is developing and the uncertainty of its magnitude, outcome and duration, it is not possible to estimate its impact on our business, operations or financial results; however, the impact could be material.

This forward-looking information also includes, among other things, information and statements relating to:

- our expectations regarding our revenue, expenses and operations
- our anticipated cash needs and our needs for additional financing
- our intention to grow our business and our operations, including the addition of retail stores, grow operation expansion and the expansion of our production operation
- our expansion at the Warehouse Facility and the production capacity thereof
- the expected growth in the number of consumers using our products
- the expected growth of the cannabis industry in Nevada and in the U.S.
- our ability to finance our planned operations and future acquisitions
- safety and dosing of cannabis
- expectations with respect to future production costs and capacity
- expectations with respect to the renewal and/or extension of our licenses
- expectations with respect to our plan to apply for additional retail store licenses
- expectations with respect to the effects our patent and process will have on costs and revenues
- market reception of our current product offerings and other new delivery mechanisms produced by us for use by consumers
- our competitive position and the regulatory environment in which we operate
- any commentary or legislative changes related to the legalization of medical or recreational cannabis and the timing related to such commentary or legalization
- any changes to U.S. federal policies regarding the enforcement of the Controlled Substances Act
- our ability to monetize our patented production process

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 is subject to risks and uncertainties. Although we believe that the assumptions underlying this information are 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 our 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:

- Shutdowns or operational disruptions related to COVID-19
- ongoing compliance with regulatory requirements relating to our business
- changes in laws, regulations and guidelines relating to our business
- difficulties in obtaining bank accounts and transferring money
- risk of prosecution of the cannabis business at the federal level in the U.S. due to the ambiguity of laws in relation to medical cannabis and the cannabis business
- accuracy of current research regarding the medical benefits, viability, safety, efficacy and dosing of cannabis
- our history of losses
- failure or delay of our operations, including the addition of retail stores, grow operation expansion, and the expansion of processing operators at the Warehouse Facility
- our ability to utilize or monetize our patented industrial process
- 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
- requirements 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
- 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 labor
- 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 our 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 our Common Stock
- potential imposition of additional sales practice requirements by the SEC
- no dividends for the foreseeable future
- future sales of Common Stock by existing stockholders causing the market price for our Common Stock to fall
- the issuance of Common Stock in the future causing dilution

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

You should not rely upon forward-looking statements as predictions of future events. In addition, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. The forward-looking statements contained in this Prospectus are made as of the date hereof, and we assume no obligation to update or supplement any forward-looking statements.

Please read "*Risk Factors*" herein and in other filings we make with the SEC for a more complete discussion of the risks and uncertainties mentioned above and for a discussion of other risks and uncertainties. All forward-looking statements attributable to us are expressly qualified in their entirety by these cautionary statements as well as others made in this annual report, and hereafter in our other SEC filings and public communications. You should evaluate all forward-looking statements made by us in the context of these risks and uncertainties. Note that forward-looking statements speak only as of the date of this annual report. Except as required by applicable law, we do not undertake any obligation to publicly correct or update any forward-looking statement.

AVAILABLE INFORMATION

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

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 patented proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

Historical Operations

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.

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, CLS Labs took its first step toward commercializing its then patent pending proprietary methods and processes by entering into an arrangement, as described in the section entitled "*The Colorado Arrangement*" below (the "Colorado Arrangement". During 2017, 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.

On April 24, 2018, we were issued a U.S. patent with respect to our proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. These concentrates may be ingested in a number of ways, including through vaporization via electronic cigarettes, and used for a variety of pharmaceutical and other purposes. Internal testing of this extraction method and conversion process has revealed that it produces a cleaner, higher quality product and a significantly higher yield than the cannabinoid extraction processes currently existing in the marketplace. We have not commercialized our proprietary process. We plan to generate revenues through licensing, fee-for-service and joint venture arrangements related to our proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

We intend to monetize this extraction method and generate revenues through (i) the licensing of our 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. Finally, we intend to grow through select acquisitions in secondary and tertiary markets, targeting newly regulated states that we believe offer a competitive advantage. Our goal at this time is to become a successful regional cannabis company.

The Colorado Arrangement

Licensing Agreement

On April 17, 2015, CLS Labs Colorado entered into a Licensing Agreement with Picture Rock Holdings, LLC ("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 of marijuana to produce certain marijuana-infused products, including edibles, e-liquids, waxes and shatter, and to practice and use such extraction processes in conjunction with the manufacture, production, sale, and distribution of such Products.

Lease and Sublease

In connection with the Colorado Arrangement, on April 17, 2015, pursuant to an Industrial Lease Agreement, CLS Labs Colorado leased 14,392 square feet of warehouse and office space in a building in Denver, Colorado where certain intended activities, including growing, extraction, conversion, assembly and packaging of cannabis and other plant materials, are permitted by and in compliance with state, city and local laws, rules, ordinances and regulations. The Lease had an initial term of seventy-two (72) months and provided CLS Labs Colorado with certain renewal options. 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.

Contemporaneously with the execution of the Lease, CLS Labs Colorado entered into a Sublease Agreement with PRH, thereby subletting the entire leased premises to PRH. 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 "PRH Equipment Lease") whereby, in exchange for a lease payment, CLS Labs Colorado agreed to commence building a fully equipped lab at the leased premises, including purchasing all equipment necessary to extract, convert and provide quality control of all cannabis products of PRH. The term of the PRH Equipment Lease was to commence upon delivery of the equipment and terminate upon the earlier of ten (10) years from its effective date or such earlier date upon which the real property lease is terminated. Due to our suspension of plans to enter the Colorado market, the PRH Equipment Lease never commenced.

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 although PRH did make one payment under the Note during the fiscal year ended May 31, 2018.

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 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 the Company and Alternative Solutions on December 4, 2017, as amended. Pursuant to the Acquisition Agreement, the Company initially contemplated acquiring all of the membership interests in the Oasis LLCs from Alternative Solutions. Just prior to closing, the parties agreed that the Company would instead acquire all of the membership interests in Alternative Solutions, the parent of the Oasis LLCs, from its members, and the membership interests in the Oasis LLCs owned by members other than Alternative Solutions. The revised structure of the transaction is referenced in the Oasis Note (as defined below), which modified the Acquisition Agreement.

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received on June 21, 2018. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $6,200,000 (less offsets for assumed liabilities), a $4.0 million promissory note due in December 2019 (the "Oasis Note"), and 22,058,823 shares of Common Stock. We used the proceeds of the Canaccord Special Warrant Offering to fund the cash portion of the closing consideration. On December 12, 2018, we were approved for the transfer of the remaining 90% interest.

The number of purchase price shares was equal to 80% of the offering price of the Company's Common Stock in its last equity offering, which price was $0.34 per share. The Oasis Note is secured by a first priority security interest over the membership interests in Alternative Solutions and the Oasis LLCs, as well as by the assets of the Oasis LLCs. The Oasis Note bears interest at the rate of 6% per annum and both principal and accrued interest were paid in full in December 2019. We 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.

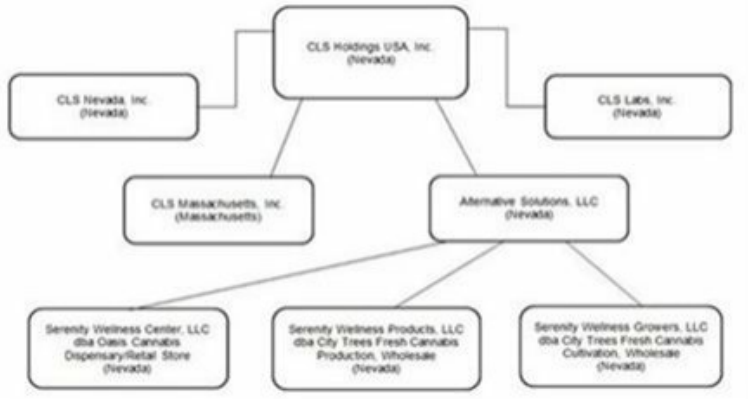
At the time of closing of the Acquisition Agreement, Alternative Solutions owed certain amounts to a consultant known as 4Front Advisors, LLC ("4Front"). In August 2019, we made a payment to this company to settle this dispute and the Oasis Note was reduced accordingly.

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 LLCs have maintained an average revenue of $20,000 per day during the 2019 calendar year. This amount was fully accrued at May 31, 2019. In May 2020, we paid $850,000 of this amount to the sellers and deposited the balance in escrow pending the payment of a state sales and excise tax amount with respect to the pre-closing period.

None of the sellers of the membership interests in Alternative Solutions or the Oasis LLCs was affiliated with the Company prior to the closing. In connection with the closing, however, the Company employed Benjamin Sillitoe, the CEO and a member of Alternative Solutions, as the Chief Executive Officer of CLS Nevada, Inc., and Don Decatur, the COO of the Oasis LLCs, as the Chief Operating Officer of CLS Nevada, Inc. for a period of time following closing.

Corporate Structure

We have four direct and three indirect, active, wholly-owned subsidiaries, CLS Labs, CLS Nevada, Inc., CLS Massachusetts, Inc. and Alternative Solutions are owned directly, and Alternative Solutions owns 100% of the issued and outstanding membership interests of: (i) Serenity Wellness Center, LLC dba Oasis Cannabis Dispensary Retail Store ("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 LLCs"). 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:



Notes:

(1) We own 100% of Alternative Solutions, CLS Nevada, Inc., CLS Labs, Inc., and CLS Massachusetts, Inc.
(2) Alternative Solutions owns 100% of Oasis, City Trees Production and City Trees Cultivation.
(3) All entities in the corporate chart were incorporated and are existing under the laws of the state of Nevada, except for CLS Massachusetts, Inc., which is a Massachusetts corporation.

Nevada Operations

We own 100% of Alternative Solutions, which is a Nevada-based holding company that owns three separate entities with licenses to operate cannabis businesses within the State of Nevada. 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 as the newly expanded Warehouse Facility becomes fully operational. (See section entitled "Expansion of Cultivation Facilities" below).

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 This location, which is easily accessible by tourists, is currently open 16 hours per day for walk-in / in-store pickup and 16 hours per day for curbside orders. It also delivers cannabis to residents between the hours of 8:00 AM and 10:00 PM. The central location provides logistical convenience for delivery to all parts of the Las Vegas valley.

City Trees' wholesale operations, which occupies approximately 10,000 square feet of a 22,000 square foot warehouse (the "Warehouse Facility"), began sales to third parties in August 2017 and completed construction and received certificate of occupancy for its state-of-the-art extraction facility in December of 2019. It had made sales to over 45 external customers by May 31, 2020. Its existing product line includes vaporizers, tinctures, ethanol produced THC distillate, and live and cured hydrocarbon 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.

Market Growth

Legal cannabis sales in the U.S. have grown substantially in recent years. This growth trend is expected to continue as more states legalize medical and recreational 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. 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. 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 focuses on more fully utilizing its new and expanded state-of-the-art Warehouse Facility, which was completed in December 2019, by adding new customers and increasing product line diversity, uniqueness, and penetration at each customer's retail location. City Trees has about 40 customers with regular recurring orders at dispensaries located throughout Nevada. Oasis currently purchases about $45,000 per month in products from City Trees, which represents about 15% of City Trees' total retail sales. As a result of these purchases, City Trees has reduced its cost of goods sold on all its SKUs by approximately half, increasing its gross margin.

City Trees' revenues were reduced substantially shortly after the commencement of the COVID-19 pandemic as its customers halted buying products from third parties. In recent months sales have been steadily improving but have not yet returned to the pre-COVID-19 levels. In addition, its customers are generally submitting smaller shorter term orders for the near future instead of larger long term orders.

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. The dispensary was recently renovated in November of 2019. The renovations included updating the sales floor by adding an additional 8 registers, as well as an inventory storage behind the sales staff which allows for a smoother and overall better customer experience within Oasis.

Inventory Management

The revenues of Oasis have increased since the onset of the COVID-19 pandemic. The operations of the Oasis dispensary, however, have changed markedly since the onset of COVID-19. Prior to the pandemic, almost all of the Oasis sales were made in its dispensary. At present, approximately 40% of its sales are made via delivery or curbside sales and only approximately 60% of sales are made in the dispensary.

All inventory is tracked in the state-mandated METRC seed to sale tracking system. Additionally, we have implemented Leaf Logix for our 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. Leaf Logix synchronizes its sales and inventory data with METRC, but we also regularly reconcile the two systems 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 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 Director of CLS Nevada, General Manager, and Inventory Team Leader/Purchaser. As Oasis adds new locations, it will form a centralized purchasing team supervised by the Director that will ensure there is consistent product selection across all locations. The Inventory Team Leader/Purchaser, or the Director will be responsible for negotiating bulk purchase discounts and maintaining target gross margins. Inventory Team Leader/Purchaser or Director will also be 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 and Banking

Payments made at Oasis can be completed via cash or a debit cashless ATM system. Cash risk is minimized by making regular deposits in our bank account at a credit union, located in Colorado. Cash deposits are picked up by armed personnel and taken to the LA Federal Reserve Bank where the deposit is made on our behalf.

Home Delivery

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. The current delivery fees are as follows: $50.00 minimum through $74.99 (subtotal) is a $10.00 delivery fee. $75.00 through $99.99 (subtotal) is a $7.00 delivery fee. All sales over $100.00 (subtotal) get free delivery. Home deliveries average well over $100 per order, which is about 75% higher than in-store orders. Oasis 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 targets at least a 60% - 65% 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 Inventory Team Leader/Purchaser of Oasis, as part of the purchasing team, conducts a pricing survey for all new products to determine which of the competition in close proximity carries the product and how much such competition is charging for similar products.

Marketing Strategy

Oasis uses a variety of methods to reach consumers including billboards, paid digital 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. It has recently begun using radio advertisements to gain extra exposure for special events, such as the "grand-reopening" and April 20th and Halloween celebrations in 2019. These radio advertisements have proven to be effective and cost efficient only when there is a new event or great offer to share, so they are used only for a limited time and when there is a compelling message. Further, Oasis is recognized as the local choice and has an aggressive rewards program that serves to keep locals engaged in the brand. In order to stay top of mind with their consumers Oasis sends out daily text messages to over 10,000 people and weekly emails to an additional 10,000 people. Oasis employs a Director of Marketing who is responsible for developing and implementing the quarterly marketing strategies that coincide with different seasons and events in Las Vegas.

Cultivation, Production & Wholesale Sales Operations

City Trees' wholesale laboratory operations are now fully operational, with all oil being manufactured in-house and formulated into a variety of finished products for sale and distribution to retail cannabis stores and medical dispensaries throughout Nevada. The laboratory throughput and design was implemented in such a way that extra capacity could be absorbed by third party toll processing, and as such, City Trees' is processing approximately 300 pounds of raw material per month for third party vendors between both ethanol and hydrocarbon extraction methods. The ability to produce has significantly improved the cost of goods sold for Oasis. (See section entitled "Expansion of Cultivation Facilities" below.)

Due to the small size of the existing City Trees' 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. Some of these cultivars are High Times Cannabis Cup Winners which provide intrinsic value for not only breeding but for possible licensing deals with exclusive rights and/or access.

Expansion of Cultivation Facilities

City Trees Cultivation is in the preliminary stages of expanding its grow operation and implementing additional manufacturing operations using both Alternative Solutions' existing processing methods and our patented processing methods. City Trees Cultivation intends to build out a grow operation to manufacture products for Oasis. Based on current wholesale prices for cannabis, however, which are relatively low due to ample supply, these plans are on hold, we will continue to monitor wholesale cannabis press and determine if and when to proceed.

Product Line

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

- The vaporizer, live and cured 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 line of tinctures includes a 1 to 1 to 1, 20 to 1, and a 1 to 1 CBD to THC ratio, CBD to THC to CBG ratios, as well as a THC only version. The tinctures are available in 3 different carriers and flavors, MCT oil, agave nectar, and chocolate agave nectar.

Pricing Strategy

The raw materials cost inputs have dropped over the last year because of an increase in the supply of raw materials to produce THC distillate We target retail prices to be competitive against other high-end brands and to deliver strong margins to City Trees and its retail customers.

Single Stream Inventory

In Nevada, 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 holds 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 Cannabis Retail Store License or Medical Cannabis 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 cannabis retail store and a medical cannabis dispensary may also deliver to residents in Nevada without any additional licensing. Both local and state licenses are required.

A Retail (adult-use or recreational) Cannabis Cultivation or Medical Cannabis Cultivation Registration Certificate allows the holder to grow as much cannabis as it can in its approved cultivation space. There is no limitation to the number of plants that may be grown at any time. The Cannabis Compliance Board can limit the amount of cultivation space through a public meeting if it determines such a limitation is needed.

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

A Retail (adult-use or recreational) Cannabis 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 a limited number of distributor licenses that exist to serve the more than 60 medical dispensaries or retail stores and approximately 200 wholesalers in the state. Oasis is licensed to operate in the City of Las Vegas as a Dual-Licensed Medical Marijuana Dispensary and Marijuana Retail Store Business, and in the State of Nevada as a Medical Cannabis Dispensary Establishment and a Cannabis Retail Store. City Trees Production is licensed to operate in the State of Nevada as a Medical Cannabis Production Establishment, a Retail Cannabis Product Manufacturing facility and a Retail Cannabis Distributor. City Trees is also licensed to operate in the State of Nevada as a Medical Cannabis Cultivation Facility and a Retail Cannabis Cultivator. Please see "*Our Business – Regulation and Licensure – Oasis LLC Licenses*" for a complete list of state and local licenses held by the Oasis LLCs and "*Our Business – Regulation and Licensure – Nevada Licenses and Regulations*" for additional information regarding Nevada licensures.

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 Director of Laboratory Operations has gained important skills and knowledge through experience with all areas needed to run a successful cultivation and extraction operation. These include indoor warehouse, outdoor, greenhouse, greenhouse light deprivation, meristem tissue culture, hydroponic irrigation/fertigation, DWC, coco, soil, rockwool, no-till, organic and synthetic feedings, and non-solvent, hydrocarbon, ethanol, and CO2 extraction respectively . With these skills and knowledge, we expect the Company 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. The previous experience of the management team of CLS Nevada, along with independent consultation, is the basis for Oasis' proprietary standard operating procedures that we believe will ensure consistent quality and yield performance.

The extraction/product formulation team is headed by a Doctor of Pharmacy and includes employees with hands-on experience in cannabis extraction and product manufacturing. 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 CLS Nevada 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.

We conduct 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 our 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

We currently operate in the Nevada cannabis market, which has limited licensing opportunities for retail locations in accordance with state regulations. These conditions create significant barriers to entry for new competition.

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. However, the CCB is tasked with determining what it believes is an adequate supply of cultivation and production licenses and at present there is no open application period.

The limitation on the number of licenses available for retail creates a significant barrier to entry for potential competition in the retail cannabis market. Acquisition is 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.

The wholesale market, however, is more fluid. At present, both supply and demand for raw cannabis are increasing, but the increase in supply precipitated by the commencement of recreational sales is outpacing the increase in demand. As a result, Nevada wholesale prices have decreased over the last year. We have undertaken and, in some cases, completed various expansion projects to meet the additional demand but we are carefully watching changes in the supply market. Most of the additional supply has been provided by existing participants within the market as very few new cultivation licenses have been issued since 2018. 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 because there is no open application period at this time for new cultivation or production licenses.

Regardless of whether supply remains high, we believe we can benefit from market conditions. A low cost for raw cannabis will likely benefit our production operation, which is expected to ramp up now that our Warehousing Facility expansion is complete and our state-of-the-art processing facility is operational, as we expect that we can produce more quality product with less raw cannabis, thus partially offsetting the impact of low wholesale prices. Low wholesale prices could also benefit our Oasis dispensary as this reduces our cost of product. If conditions change and supply is reduced, we can expand our cultivation facility.

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. Raw materials are currently purchased from third parties and oils, to a larger extent, are processed for Oasis by City Trees.

The following table describes the key components of the supply chain for City Trees products:

Raw Material Item	Description	# 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.	5+	Wholesale prices are currently in the range of $200 - $450 per pound. Target pricing is $220 per pound in order to match the cost of sourcing finished bulk oil.	Gradually increasing amount will be sourced internally upon completion of Phase 1 and Phase 2.
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.	5+	Wholesale prices currently range from $1,500 - $2,500 per pound.	Gradually increasing amount will be sourced internally for City Trees upon completion of Phase 1 and Phase 2.
Bulk Distillate Cannabis Oil	Cannabis oil refined through distillation processes that maximize potency and remove impurities.	4+	Wholesale prices currently range from $9 - $12 per gram.	Gradually increasing amount will be sourced and processed internally upon completion of Warehouse 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.	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.	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	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	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	2	Wholesale prices range from $900 - $1,100 per kilogram	N/A

Intellectual Property

Domains

We have protected 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/

Patent and Trademarks

We have 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 (the "Extraction Process") by the United States Patent and Trademark Office (U.S. patent number 9,950,976 B1). The Extraction Process is expected to result in increased product consistency, cost savings for growers, and increased anticipated revenues for us due to the larger amount of Delta-9 THC that we believe it can produce. We may use a version of the patented technology on a smaller scale at our Warehouse Facility and/or license the technology to others.

Internal testing of the Extraction Process has revealed that such process produces a cleaner, higher quality product and a higher yield than the cannabinoid extraction processes currently existing in the marketplace. We have not commercialized the Extraction Process. We plan to generate revenues through licensing, fee-for-service and joint venture arrangements related to the Extraction Process from cannabis plants and converting the resulting cannabinoid extracts into saleable concentrates.

We intend to monetize the Extraction Process and generate revenues through (i) the licensing of its patented 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 then intend to explore the creation of its own brand of concentrates for consumer use, which it would sell wholesale to cannabis dispensaries. We believe that it can standardize the testing, compliance and labeling of its products in the cannabis industry.

Employees

As of July 15, 2020, the Oasis LLCs had 70 employees, all of which are full-time employees. The employees are distributed among the following departments:

Nevada Market Administration	**Number of Employees**
Administrative	3
Accounting	3
Executive	1
Oasis Cannabis Retail	
Product Sales and Customer Service	26
Inventory Control	5
Dispatch / Delivery	7
Safety / Security	8
Management / Leadership	6
Communications / Marketing	1
City Trees Wholesale	
Wholesale Sales and Distribution	1
Leadership	1
Cultivation / Product Manufacturing	7
Inventory Control	1
Total Employees	**70**

We believe 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. Our 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.

We recruit 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 our core values, it requires that each employee acts with integrity and constant striving to uphold the highest professional standards.

In addition, the safety of our employees is a priority and we are committed to the prevention of illness and injury through the provision and maintenance of a healthy workplace. We take 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.

As a result of the COVID-19 pandemic, we initially furloughed 23 of our employees, including 19 dispensary employees and 4 employees of City Trees. In recent months, as our dispensary revenues have exceeded pre-COVID-19 levels and our City Trees' revenues have steadily improved, we have rehired all the furloughed employees who wished to return and have replaced all of the jobs lost at the onset of the pandemic.

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.

We also intend to grow through select acquisitions in secondary and tertiary markets, targeting newly regulated states that we believe offer a competitive advantage. Our goal at this time is to become a successful regional cannabis company.

Regulation and Licensure

Despite 33 states and the District of Columbia, Puerto Rico and Guam having legalized or decriminalized marijuana use for recreational or 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.

We, through the Oasis LLCs, are directly involved in the cultivation, distribution and sale of cannabis in the State of Nevada. All of our operations are in the United States. Therefore, our 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 our knowledge, over half of the United States of America, plus the District of Columbia, Puerto Rico and Guam have legalized cannabis in some form. California, Nevada, Massachusetts, Maine, Washington, Oregon, Colorado, Vermont, Alaska, Michigan, and the District of Columbia have legalized the recreational use of cannabis. Maine has yet to begin their recreational cannabis commercial operations. Illinois became the eleventh (11th) State to introduce a legal cannabis market launching sales on January 1, 2020. Fifteen additional states have legalized 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 states 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" 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.

On January 4, 2018, former 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 has not affected the status of the U.S. Department of the Treasury's Financial Crimes Enforcement Network ("FinCEN") memorandum issued by the Department of Treasury, which remains in effect. This memorandum outlines Bank Secrecy Act-compliant pathways for financial institutions to service state-sanctioned cannabis businesses, which echoed the enforcement priorities outlined in the Cole Memo. In addition to his rescission of the Cole Memo, Attorney General Sessions issued a one-page memorandum known as the "Sessions Memorandum". The Sessions Memorandum explains the DOJ's rationale for rescinding all past DOJ cannabis enforcement guidance, claiming that Obama-era enforcement policies are "unnecessary" due to existing general enforcement guidance adopted in the 1980s, in chapter 9.27.230 of the 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, and also divert the attention of key executives. Such proceedings could have a material adverse effect on our business, revenues, operating results and financial condition as well as our reputation, even if such proceedings were concluded successfully in favor of the Company. See "*Risk Factors*".

For the reasons set forth above, our 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 our 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 our expansion strategy may have a material adverse effect on our 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, 2018, 2019 and 2020 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 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. Previously the Amendment was extended until December 8, 2018, as part of the passage of an emergency aid package. In February 2019, President Trump renewed the Rohrabacher Amendment as part of the spending bill and it shall remain valid through September 30, 2019. The Amendment was renewed again in December of 2019 through the signing of the fiscal year 2020 omnibus spending bill, which is effective through September 30, 2020. Through his signing statement, President Trump reiterates that the Department of Justice may not use any funds to prevent implementation of medical marijuana laws by various States and territories, and "I will treat this provision consistent with the President's constitutional responsibility to faithfully execute the laws of the United States." 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 within the five-year statute of limitations. The Amendment does not protect 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. However, the United States Congress recently passed the Blumenauer-McClintock-Norton Amendment which would provide legal protection for all state legal cannabis activities. It is unclear whether the amendment language will be included in the Senate appropriations language. In addition to the amendment, three separate proposed pieces of legislation have been introduced by members of Congress that would legalize marijuana at a federal level, although it is uncertain if any of the proposed bills will gain any traction.

Ability to Access Public and Private Capital

We have historically, and continue to have, access to equity and debt financing from the public and prospectus exempt (private placement) markets in Canada and, to a lesser extent, in the United States. Our executive team and 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 due to changes in applicable law, then the Company expects that it would have access to raise equity and/or debt financing privately.

Although we are not able to obtain bank financing in the U.S. or financing from other U.S. federally regulated entities, we currently have access to equity financing through the private markets in Canada and in the United States. 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 our 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 us when needed or on terms which are acceptable. Our inability to raise financing to fund capital expenditures or acquisitions could limit our growth and may have a material adverse effect upon future profitability. See "*Risk Factors*".

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 we have an operating presence in, and is presented as of July 2020, unless otherwise indicated. Although our 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 Cannabis Licenses and the COVID-19 Pandemic

On March 12, 2020, Governor Steven Sisolak declared a State of Emergency related to the COVID-19 global pandemic. This State of Emergency was initiated due to the multiple confirmed and presumptive cases of COVID-19 in the State of Nevada. On March 17, 2020, pursuant to the Declaration of Emergency, Governor Sisolak released the Nevada Health Response COVID-19 Risk Mitigation Initiative ("Initiative"). This Initiative provided guidance related to the March 12 Declaration of Emergency, requiring Nevadans to stay home and all nonessential businesses to temporarily close to the public for thirty (30) days. In the Initiative, it was declared that licensed cannabis stores and medical dispensaries could remain open only if employees and consumers strictly adhered to the social distancing protocols.

In light of the Initiative, Governor Sisolak issued Declaration of Emergency Directive 003 on March 20, 2020 which mandated retail cannabis dispensaries to operate as delivery only. On April 29, 2020, Governor Sisolak issued Declaration of Emergency Directive 016 which amended the cannabis section of Directive 003 and permitted licensed cannabis dispensaries to engage in retail sales on a curbside pickup or home delivery basis pursuant to guidance from the Cannabis Compliance Board. Through Directive 016, licensed cannabis dispensaries were able to begin curbside pickup on May 1, 2020 so long as the facility adhered to protocols developed by the CCB.

In accordance with Directive 016, the CCB released guidelines related to curbside pickup requiring all facilities wishing to offer curbside pickup to first submit and receive approval from the CCB. Serenity Wellness Center LLC developed the required procedures and submitted and received State approval on April 30, 2020 to conduct curbside pickup sales effective May 1, 2020. Further, the City of Las Vegas required cannabis facilities to obtain a temporary 30-day curbside pickup permit. Serenity Wellness Center LLC was issued its first temporary curbside pickup permit from the City of Las Vegas on May 1, 2020. Serenity Wellness Center LLC has subsequently received a temporary curbside permit every thirty (30) days thereafter. Upon expiration every 30 days, the City of Las Vegas reviews the licensee and determines if a new temporary permit shall be issued.

On May 7, 2020, Governor Sisolak issued Declaration of Emergency Directive 018. Directive 018 worked to reopen the State of Nevada as a part of Phase One of the Nevada United: Roadmap to Recovery Plan introduced by Governor Sisolak on April 30, 2020. Directive 018 provided that, in addition to curbside pickup or home delivery, licensed cannabis dispensaries could engage in retail sales on an in-store basis effective May 9, 2020, pursuant to guidance from the CCB. The CCB required facilities wishing to engage in limited in-store retail sales to submit Standard Operating Procedures and receive approval of the same. Serenity Wellness Center LLC developed the required procedures and submitted and received State approval on May 8, 2020 to conduct limited in-store retail sales effective May 9, 2020. The City of Las Vegas did not require a separate permit for limited in-store sales.

On July 31, 2020, Governor Sisolak issued Declaration of Emergency Directive 029 reaffirming The Nevada United: Roadmap to Recovery Plan. Directive 029 stated that all directives promulgated pursuant to the March 12, 2020 Declaration of Emergency or subsections thereof set to expire on July 31, 2020, would remain in effect for the duration of the current state of emergency unless terminated prior to that date by a subsequent directive or by operation of law associated with lifting the Declaration of Emergency. Further, Directive 029, having become effective at 11:59 PM on Friday, July 31, 2020 shall remain in effect until terminated by a subsequent directive promulgated pursuant to the March 12, 2020 Declaration of Emergency, or dissolution or lifting of the Declaration of Emergency itself, to facilitate the State's response to the COVID-19 pandemic.

Nevada Summary

Medical Cannabis Program

Nevada has a medical cannabis 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 Nevada Department Of Taxation. In 2019 Nevada Governor established the Cannabis Compliance Board which took over the regulation of cannabis on July 1, 2020. 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. In 2017 these medical marijuana establishments were able to apply for and obtain retail marijuana licenses of the same type (cultivation, production, laboratory or dispensary). From September 7, 2018 to September 20, 2018 Nevada began accepting retail marijuana store business applications and shortly thereafter in December 2018, the State of Nevada awarded sixty-one (61) retail marijuana store licenses. The application process was merit-based, competitive, and is currently closed. Residency is not required to own or invest in a Nevada medical cannabis business or recreational 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 cannabis from Nevada dispensaries. Nevada also allows for dispensaries to deliver medical cannabis to patients.

Each medical cannabis establishment must maintain a medical cannabis establishment registration certificate with the CCB. Among other requirements, there are minimum liquidity requirements and restrictions on the geographic location of a medical cannabis establishments 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 cannabis registration revoked. Additionally, each volunteer, employee, owner, officer and board member of a medical marijuana establishment must be registered with the CCB as a medical cannabis agent and hold a valid medical cannabis establishment agent card. The establishment must have adequate security measures and use an electronic verification system and inventory control system. If the medical cannabis 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 CCB.

In response to the rescission of the Cole Memorandum, former Nevada Attorney General Adam Laxalt issued a public statement, pledging to defend the law after it was approved by voters. Former Nevada Governor Brian Sandoval also stated, "Since Nevada voters approved the legalization of recreational marijuana in 2016, I have called for a well-regulated, restricted and respected industry. My administration has worked to ensure these priorities are met while implementing the will of the voters and remaining within the guidelines of both the Cole and Wilkinson federal memos," and that he would like for Nevada to follow in the footsteps of Colorado, where the U.S. attorneys do not plan to change the approach to prosecuting crimes involving recreational marijuana.

To our knowledge, there have not been any additional statements or guidance made by federal authorities or prosecutors regarding the risk of enforcement action in Nevada.

In determining whether to issue a medical marijuana establishment registration certificate pursuant to NRS 453A.322, the Nevada Division of Public and Behavioral Health or the Nevada Department of Taxation, in addition the application requirements set out, considered 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 cannabis registration certificate expires one year after the date of issuance and may be renewed upon resubmission of the application information to the CCB and a payment of the renewal fee.

Governor Sisolak has signed multiple Assembly Bills and Senate Bills having to do with or affecting both retail and medical aspects in the cannabis industry. Specifically, Senate Bill 430 effects the medical cannabis industry, amending NRS 453A.050, to further expand the definition of chronic or debilitating medical condition as it is defined in relation to the medical use of cannabis. The new definition includes: an anxiety disorder, autism spectrum disorder, autoimmune disease, dependence upon opioids, anorexia, medical condition related to acquired immune deficiency syndrome (AIDS) or the human immunodeficiency virus (HIV) and a neuropathic condition. The applicable sections of Nevada Revised Statutes continues to protect a person who holds a valid registry identification card or letter of approval from state prosecution for possession, delivery and production of cannabis.

Adult-Use Retail Cannabis Program

The sale of marijuana for adult-use in Nevada was approved by ballot initiative on November 8, 2016. Nevada Revised Statute 453D required the NV DOT to begin receiving applications for the licensing of marijuana establishments on or before January 1, 2018. Title 56 of Nevada Revised Statutes and Nevada Cannabis Compliance Regulations (NCCR)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 cannabis.

In February 2017, the Nevada Department of Taxation announced plans to issue “early start” recreational marijuana establishment licenses in the summer of 2017. Beginning on July 1, 2017, these licenses 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. 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. Effective July 1, 2019, revenue collected from the 10% excise tax on retail marijuana stores is deposited into the State Distributive School Account in the State General Fund.

On July 1, 2020, portions of Assembly Bill 533 went into effect. Among the provisions of AB 533 that went into effect are any person who owns more than five percent (5%) ownership interest in a cannabis establishment has to obtain a cannabis establishment agent registration card for a cannabis executive and person who owns less than five percent (5%) must either obtain a waiver for the agent registration card requirement or obtain an agent registration card.

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 were to be issued. That application period occurred in September 2018 and there is ongoing litigation relating to that licensing process.

Under Nevada’s adult-use cannabis law, the CCB licenses cannabis cultivation facilities, product manufacturing facilities, distributors, retail stores and testing facilities. After merging medical and adult-use marijuana regulation and enforcement into the Marijuana Enforcement Division of the Department of Taxation in 2017, Governor Sisolak has now created the single regulatory agency known as the “Cannabis Compliance Board” that took over the regulation of the program on July 1, 2020. For the first 18 months of retail cannabis starting in 2017, applications to the Department for adult-use establishment licenses were only accepted from existing medical marijuana establishment certificate holders and existing liquor distributors for the adult-use distribution license, but in September 2018 applications for retail marijuana stores were accepted and conditional licenses were issued in December 2018.

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

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

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

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

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

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

Administration of the regular retail program in Nevada is governed by permanent regulations. The NV DOT conducted public consultation and received public comments on the Revised Proposed Adult-Use Marijuana Regulation (LCB File No. R092-17) dated December 13, 2017 (the “Nevada Adult-Use Regulation”). On February 27, 2018, the NV DOT adopted the Nevada Adult-Use Regulations and the NV DOT began accepting applications for adult-use marijuana registration certificates shortly thereafter. In December of 2018, the Department of Taxation awarded 61 conditional retail marijuana store licenses throughout the State of Nevada. There is ongoing litigation regarding the issuance of these licenses.

In determining who shall receive a license for a retail marijuana store in response to the request for applications made pursuant to NAC 453D.260, the Department ranked the applications in order from first to last based on compliance with NAC 453D and chapter 453D of NRS and on the following content:

a. Whether the owners, officers or board members have experience operating another kind of business that has given them experience which is applicable to the operation of a marijuana establishment;

b. The diversity of the owners, officers or board members of the proposed marijuana establishment;

c. The educational achievements of the owners, officers or board members of the proposed marijuana establishment;

d. The financial plan and resources of the applicant, both liquid and illiquid;

e. Whether the applicant has an adequate integrated plan for the care, quality and safekeeping of marijuana from seed to sale;

f. The amount of taxes paid and other beneficial financial contributions, including, without limitation, civic or philanthropic involvement with this State or its political subdivisions, by the applicant or the owners, officers or board members of the proposed marijuana establishment;

g. Whether the owners, officers or board members of the proposed marijuana establishment have direct experience with the operation of a medical marijuana establishment or marijuana establishment in this State and demonstrated a record of operating such an establishment in compliance with the laws and regulations of this State for an adequate period of time to demonstrate success;

h. The experience of key personnel that the applicant intends to employ in operating the type of marijuana establishment for which the applicant seeks a license; and

i. Any other criteria that the Department determines to be relevant.

In response to the ever-changing cannabis industry, Governor Sisolak has signed Assembly Bills: 132, 466, and 533 along with Senate Bills: 346, and 545, amongst others, all relating to the cannabis industry in the State of Nevada.

Assembly Bill 132, which went into effect on January 1, 2020, provides that it is unlawful for an employer to refuse/fail to hire a prospective employee who submitted to a drug test and the results showed a presence of marijuana. AB 132 does not apply to persons applying to be a firefighter or medical tech, whom operates a motor vehicle or a person whose employment affects the safety of others.

Assembly Bill 466 requires the creation of a pilot program to facilitate certain financial transactions relating to marijuana. AB 466 is authorized to begin October 1, 2019 and is set to expire, by limitation, on June 23, 2023. The goals of AB 466 are to give marijuana establishments a financial institution that will allow them to continue to strive towards reducing the risk to the safety and welfare of the public that is seen when large sums of cash are present, provide marijuana establishments with a safe way to pay taxes, prevent revenue from going to criminal enterprises and prevent the distribution of marijuana to minors. AB 466 has built in reporting provisions which state that the State Treasurer shall submit to the Director of the Legislative Counsel Bureau a report about the pilot program before December 1, 2020 and every six (6) months thereafter.

Assembly Bill 533 was approved by Governor Sisolak on June 12, 2018. Included in AB 533 is Section 52 which calls for the creation of the Cannabis Advisory Commission (CAM) and the Cannabis Compliance Board (CCB). Any reference to NV DOT and the need for NV DOT approval discussed herein, now means that CCB approval is required. The CAM shall be comprised of Officers and Members appointed by the Governor. The purpose of the CAM is to study issues and make recommendations to the CCB in regard to cannabis regulations. Additionally, the CAM will recommend to the CCB any guidelines, rules or regulations or changes to existing ones. Furthermore, the CAM will study the distribution of licenses, emerging technologies for collecting data and recommend to the board any statutory changes that the Commission determines to be appropriate. The CCB is created as a part of Section 54 of Assembly Bill 533. AB 533 calls for the authority to license and regulate persons and establishments involved in the cannabis industry in this State to be transferred to the Cannabis Compliance Board. The CCB will consist of five (5) members who will be appointed by Governor Sisolak. The Nevada legislature modeled the CCB after the successful Nevada Gaming Control Board. The CCB will license, register and regulate cannabis establishments and those who are engaged in the production and/or sale of cannabis and cannabis products. Additionally, section 65 of AB 533 outlines the procedures by which the CCB can adopt regulations and provides the procedure by which the Legislative Commission can review those regulations. Section 57 of AB 533 outlines that the CCB can perform certain audits of the accounts, programs, funds, activities, and functions of the licensees or they are authorized to require the Department of Taxation to do so. Section 68 provides the procedures for disciplinary actions if a cannabis establishment violates any provision or has an unsatisfactory audit.

Section 178 of Assembly Bill 533 went into effect on July 1, 2020 further expands on the concept that a person who is 21 years of age or older is exempt from state prosecution for:

A. The possession, delivery or production of cannabis;
B. The possession or delivery of paraphernalia;
C. Aiding and abetting another in the possession, delivery or production of cannabis;
D. Aiding and abetting another in the possession or delivery of paraphernalia;
E. Any combination of the acts described in paragraphs (a) to (d), inclusive; and
F. Any other criminal offense in which the possession, delivery or production of cannabis or the possession or delivery of paraphernalia is an element.

The legislative intent behind Section 178 is to provide protections for persons and establishments engaged in certain actions relating to the adult use of cannabis. Section 178 extends the provision of no state prosecution to persons being in the presence or vicinity of the adult use of cannabis in accordance with the provisions of this title.

In addition to the Assembly Bills passed, Governor Sisolak also passed various Senate Bills related to the cannabis industry. As mentioned below in Training, Senate Bill (SB) 346 allows for an independent contractor to enter into a contract to provide training of medical cannabis establishment and cannabis establishment agents.

Senate Bill 430 amends NRS 453A.050 to further expand the definition of chronic or debilitating medical condition as it is defined in relation to the medical use of cannabis. The new definition includes: an anxiety disorder, autism spectrum disorder, autoimmune disease, dependence upon opioids, anorexia, medical condition related to acquired immune deficiency syndrome (AIDS) or the human immunodeficiency virus (HIV) and a neuropathic condition. As mentioned previously, NRS 453A.050 continues to protect a person lawfully consuming medical cannabis from state prosecution for the possession, delivery or production of marijuana.

Nevada Licenses 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.

A retail cannabis store license permits the holder to purchase cannabis from Nevada licensed cultivation facilities, cannabis products from Nevada licensed product manufacturing facilities and cannabis from other Nevada licensed retail stores and allows the sale of cannabis and cannabis products to consumers. No cannabis or cannabis infused products may be brought into Nevada from outside of Nevada. Unlicensed cannabis activities are subject to harsh criminal penalties under Nevada state law.

A medical cannabis dispensary registration certificate permits the holder to purchase medical cannabis from Nevada licensed medical cultivation facilities, medical cannabis products from Nevada licensed medical product manufacturing facilities and medical cannabis from other Nevada licensed cannabis dispensaries and allows the sale of medical cannabis and medical cannabis products to consumers. No medical cannabis or medical cannabis infused products may be brought into Nevada from outside of Nevada. Unlicensed medical cannabis activities are subject to harsh criminal penalties under Nevada state law.

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

A retail cultivation license permits its holders to acquire, possess, cultivate, deliver, transfer, have tested, transport, supply or sell cannabis and related supplies to retail cannabis stores, retail cannabis production facilities for the production of edible, cannabis products and/or cannabis infused products or other retail cannabis cultivation facilities.

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

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

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 section entitled "*Compliance with Applicable State Law in the United States*" below.)

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 recording resolution of at least 1920 x 1080, or the equivalent, at a rate of at least 15 frames per second, which records 24 hours a day and is capable of being accessed remotely by a law enforcement agency in real time upon request.

d. video cameras with a recording resolution of at least 720 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;

e. 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 cannabis;

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

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

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

i. 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

j. 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.

Training

In accordance with SB 346, an independent contractor is authorized to enter into a contract to provide training of medical cannabis establishment agents and cannabis establishment agents. The independent contractor is required to submit a plan to the CCB describing the manner their training will be conducted.

Transportation

In Nevada, cannabis may only be transported from a licensed cultivation or production facility by a licensed cannabis distributor. Prior to transporting the cannabis or cannabis 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 cannabis or cannabis products being transported; and the anticipated route of transportation.

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

Each licensed cannabis distributor agent transporting cannabis or cannabis products must report any: (a) vehicle accident that occurs during the transportation to a person designated by the cannabis distributor to receive such reports within two (2) hours after the accident occurs; and (b) loss or theft of cannabis or cannabis products that occurs during the transportation to a person designated by the cannabis distributor to receive such reports immediately after the cannabis establishment agent becomes aware of the loss or theft. A cannabis 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 CCB. The distributor must report any unauthorized stop that lasts longer than two (2) hours to the CCB.

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

Employees of licensed cannabis distributors, including drivers transporting cannabis and cannabis products, must be 21 years of age or older and must obtain a valid cannabis establishment agent registration card issued by the CCB. If a cannabis distributor is co-located with another type of business, all employees of co-located businesses must have cannabis 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 CCB inspectors. While engaged in the transportation of cannabis and cannabis products, any person that occupies a transport vehicle when it is loaded with cannabis or cannabis products must have their physical cannabis 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 CCB. 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. Cannabis establishment agent registration cardholders and the licensed cannabis distributor they work for are responsible for the cannabis and cannabis product once they take control of the product and leave the premises of the cannabis establishment.

There is no load limit on the amount or weight of cannabis and cannabis products that are being transported by a licensed cannabis distributor. Cannabis distributors are required to adhere to CCB regulations and those required through their insurance coverage. The motor vehicle which a cannabis distributor uses to transport cannabis shall be equipped with an audible car alarm. When transporting by vehicle, cannabis and cannabis 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 cannabis and cannabis products being transported by vehicle is in excess of $25,000 (the insured fair market value per the shipping manifest), the transporting vehicle will have no less than two (2) of the marijuana distributor's cannabis establishment agent registration cardholders involved in the transportation. All cannabis and cannabis product must be tagged for purposes of inventory tracking with a unique identifying label as required by the CCB and remain tagged during transport. This unique identifying label should be similar to the stamp for cigarette distribution. All cannabis and cannabis products when transported by vehicle must be transported in sealed packages and containers and remain unopened during transport. All cannabis and cannabis product transported by vehicle should be inventoried and accounted for in the inventory tracking system. Loading and unloading of cannabis and cannabis 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 cannabis and cannabis products.

Oasis LLC 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 Cannabis Dispensary Establishment and a Retail Cannabis Store. City Trees Production is licensed to operate in the state of Nevada as a Medical Cannabis Production Establishment, a Retail Cannabis Product Manufacturing facility and a Retail Cannabis Distributor. City Trees Production is licensed to operate in the state of Nevada as a Medical Cannabis Cultivation Facility and a Retail Cannabis Cultivator. The table below lists the licenses issued to the Oasis LLCs in respect of the Oasis LLCs' operations in Nevada (including municipal licenses). Under applicable laws, the licenses permit the Oasis LLCs to cultivate, manufacture, process, package, sell, and purchase cannabis pursuant to the terms of the licenses, which are issued by the NV DOT and CCB under the provisions of Nevada Revised Statutes ("NRS") sections 678A, 678B, 678C and 678D and the associated sections of the Nevada Administrative Code, CCB regulations and local regulations pertaining to cannabis businesses. All licenses are independently issued for each approved activity for use at the Oasis LLCs' facilities in Nevada.

All cannabis establishments must register with the CCB. If applications contain all required information and after vetting by officers, establishments may be issued a cannabis license or medical cannabis establishment registration certificate only during an open application period. In a local governmental jurisdiction that issues business licenses, the issuance by the CCB of a cannabis license or medical cannabis establishment registration certificate is considered provisional or conditional until the local government has issued a business license for operation and the establishment is in compliance with all applicable local governmental ordinances. Final licenses and 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 or mailings from the CCB and include a renewal form or application. The renewal periods serve as an update for the CCB on the licensee's status. Maintaining the licenses in good standing is critical to the success of a cannabis 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 LLC facilities. The table below lists the licenses issued to the Oasis LLCs in respect of their operations in Nevada.

Licenses in the State of Nevada

Holding Entity	Permit/License	Location City	Expiration/Renewal Date	Description
Serenity Wellness Center LLC d/b/a Oasis Cannabis	D90 - Medical Marijuana Dispensary License #: M66-00051	Las Vegas	01/01/2021	City of Las Vegas Marijuana Business License for a Medical Dispensary
Serenity Wellness Center LLC d/b/a Oasis Cannabis	R90 - Retail Marijuana Store (Rec Sales) License # M66-00052	Las Vegas	01/01/2021	City of Las Vegas Marijuana Business License for a Retail Marijuana Store
Serenity Wellness Center LLC d/b/a Oasis Medical Cannabis	Medical Marijuana Registration Certificate: # 02916424476864783141 MME Code: D046		06/30/2021	State of NV Final Registration Certificate – Medical Marijuana Dispensary Establishment
Serenity Wellness Center LLC d/b/a Oasis Medical Cannabis	Retail Marijuana Store License #: 55910347793434478299 ME Code: RD046		06/30/2021	State of NV – Retail Marijuana Store License
Oasis Cannabis	G50 – General Retail Sales Drug Paraphernalia License #: G66-07378	Las Vegas	02/01/2021	City of Las Vegas general retail sales license
Community Oasis LLC	A51 – Automated Teller Operator License #: G63-09197	Las Vegas	12/01/2020	City of Las Vegas license to operate an automated teller
Serenity Wellness Products LLC d/b/a City Trees	MM Production – GS License #: BL105437	North Las Vegas	10/31/2020* *Renews every 90 days	City of North Las Vegas Marijuana Production License

Holding Entity	Permit/License	Location City	Expiration/Renewal Date	Description
Serenity Wellness Products LLC d/b/a City Trees	RM Rec Production – GS License #: BL111296	North Las Vegas	10/31/2020 *Renews every 90 days	City of North Las Vegas Marijuana Production License
Serenity Wellness Products LLC d/b/a City Trees	Marijuana Distributor License #: 2020313713	Henderson	09/30/2020	City of Henderson Marijuana Distributor License
Serenity Wellness Products LLC d/b/a City Trees	Medical Marijuana Registration Certificate: # 40297970315350477547 MME Code: P024		06/30/2021	State of NV Final Registration Certificate – Medical Marijuana Production Establishment
Serenity Wellness Products LLC d/b/a City Trees	Retail Marijuana Product Manufacturing License #: 79484750509886968559 ME Code: RP024		06/30/2021	State of NV Retail Marijuana Product Manufacturing License
Serenity Wellness Products LLC d/b/a City Trees	Retail Marijuana Distributor License #: 61611537222691531848 ME Code: T073		06/30/2021	State of NV Retail Marijuana Distributor License
Serenity Wellness Products LLC d/b/a City Trees	Z90 - Medical Marijuana Production Facility OLV Marijuana Production License #: M65-00015		01/01/2021	City of Las Vegas license required to sell to dispensaries within its jurisdiction
Serenity Wellness Growers LLC d/b/a City Trees	MM Cultivation - GS License #: BL105436	North Las Vegas	10/31/2020* *Renews every 90 days	City of North Las Vegas Marijuana Cultivation License
Serenity Wellness Growers LLC d/b/a City Trees	RM Rec Cultivation – GS License #: BL111295	North Las Vegas	10/31/2020 *Renews every 90 days	City of North Las Vegas Marijuana Cultivation License
Serenity Wellness Growers LLC d/b/a City Trees	Medical Marijuana Registration Certificate: 36161311931874315998 MME Code: C039		06/30/2021	State of NV Medical Marijuana Cultivation Facility Registration Certificate
Serenity Wellness Growers LLC d/b/a City Trees	Retail Marijuana Cultivator License #: 77486514896179438118 ME Code: RC039		06/30/2021	State of NV Retail Marijuana Cultivator License
Serenity Wellness Growers LLC d/b/a City Trees	X90 – Medical Marijuana Cultivation Facility OLV License #: M65-00014	Las Vegas	01/01/2021	City of Las Vegas license required to sell marijuana within its jurisdiction

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 LLCs 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 and 678.

Compliance with Applicable State Law in the United States

We, via the Oasis LLCs, are classified as having a "direct" involvement in the U.S. cannabis industry and are in compliance with applicable licensing requirements and the regulatory framework enacted by the state of Nevada. Neither the Company nor the Oasis LLCs 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.

We have in place a detailed compliance program overseen and maintained by external state and local regulatory/compliance counsel. Our internal compliance team (consisting of managers for each respective business unit) implements the compliance program.

Our 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

Our 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.

Our 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. We keep records of all compliance notifications received from the state regulators or inspectors and how and when the issue was resolved.

Further, we have 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. We maintain accurate records of our inventory at all licensed facilities. Adherence to our standard operating procedures is mandatory and ensures that our operations are compliant with the rules set forth by the applicable state and local laws, regulations, ordinances, licenses and other requirements. We ensure adherence to standard operating procedures by regularly conducting internal inspections and ensure that any issues identified are resolved quickly and thoroughly.

In January 2018, former 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
- we conduct 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.

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.

We, together with external state and local regulatory/compliance counsel, will continue to monitor compliance on an ongoing basis in accordance with our compliance program and standard operating procedures. While our 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.

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 operate is Nevada.

PROPERTIES

The mailing address of our principal executive office is 11767 South Dixie Highway, Suite 115, Miami, Florida 33156. We currently maintain an administrative office at 3355 SW 59th Avenue, Miami, Florida 33155. Alternative Solutions and the Oasis LLCs lease space for a dispensary and administrative offices at 1800 Industrial Road, Suite 180, Las Vegas, Nevada 89102, and for a cultivation and processing facility at 203 E. Mayflower Avenue, North Las Vegas, Nevada 89030.

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. In connection with any investment decision, you should carefully consider the following factors, which could materially affect our business, financial condition or results of operations. You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our Consolidated Financial Statements and related notes in Item 8.

Risks Related to the Marijuana Industry

Cannabis continues to be a Controlled Substance under the United States Federal Controlled Substances Act and our business may result in federal civil or criminal prosecution.

We are 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 33 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. Ten states and the District of Columbia have legalized cannabis for adult use. Fourteen additional states have legalized high-cannabidiol ("CBD"), low Delta-9-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 U.S. Controlled Substance Act of 1970 (codified in 21 U.S.C.A. Section 812) (the "Controlled Substances Act"). 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 us of liability under U.S. federal law, nor provide a defense to any federal proceeding brought against us. 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, 2018, 2019 and 2020 Consolidated Appropriations Act 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 U.S. Department of Justice (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. In December 2019, the Rohrabacher Amendment was renewed as part of the spending bill and it shall remain valid through September 30, 2020. 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 within the five-year statute of limitations. The Amendment does not protect 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 us, including our reputation and ability to conduct business, our holding (directly or indirectly) of medical and adult-use cannabis licenses in the U.S., the listing of our securities on the Canadian Securities Exchange (the "CSE"), our financial position, operating results, profitability or liquidity or the market price of our publicly traded shares. In addition, it is difficult for us to estimate the time or resources that would be needed for the investigation or defense of any such matters or our 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.

The approach to the enforcement of cannabis laws may be subject to change, which creates uncertainty for our business.

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, former 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, the then 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, former 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, former Attorney General Sessions issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explains the DOJ's rationale for rescinding all past 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 and the lack of additional guidance since the resignation of former Attorney General Sessions, 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 us or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on our business, revenues, operating results and financial condition as well as our reputation and prospects, even if such proceedings were concluded successfully in our favor. 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 us. Any such proceedings brought against us may adversely affect our operations and financial performance.

Uncertainty surrounding existing protection from U.S. federal prosecution may adversely affect our operations and financial performance.

Pursuant to the Amendment, until such time as it is not renewed or expires of its own accord, 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. To the extent the Amendment is included in a continuing resolution, the protections of the Amendment would lapse if Congress does not reauthorize the resolution or pass another funding measure that includes the Amendment.

We may be in violation of anti-money laundering laws and regulations which could impact our ability to obtain banking services, result in the forfeiture or seizure of our assets and could require us to suspend or cease operations.

We are 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. We 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 we do 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 Canadian Securities Administrators), 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 our 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 us to civil and/or criminal penalties. Furthermore, while there are no current intentions to declare or pay dividends on our Common Stock in the foreseeable future, in the event that a determination was made that our 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. We could likewise be required to suspend or cease operations entirely.

We may become subject to federal and state forfeiture laws which could negatively impact our business operations.

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, we are 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.

Investors 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. Investors and prospective investors of the Company should be aware of these potentially relevant federal and state laws in considering whether to invest in the Company.

We are subject to certain tax risks and treatments that could negatively impact our results of operations.

Section 280E of the Internal Revenue Code, as amended, prohibits businesses from deducting certain expenses associated with trafficking controlled substances (within the meaning of Schedule I and II of the Controlled Substances Act). The IRS has invoked Section 280E in tax audits against various cannabis businesses in the U.S. that are permitted under applicable state laws. Although the IRS 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.

Our business in the cannabis industry is subject to 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, we 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.

Prior to the CDS MOU (as defined below), it had 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. If CDS were to proceed in the manner suggested by these publications, and apply such a policy to us, it would have a material adverse effect on the ability of holders of Common Stock to make trades in Canada. In particular, our Common Stock would become highly illiquid in Canada as investors would have no ability to effect a trade of our Common Stock in Canada 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 in the United States 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.

Any restrictions imposed by the CSE or other applicable exchange on the business of the Company and/or the potential delisting of our Common Stock from the CSE or other applicable exchange would have a material adverse effect on the Company and on the ability of holders of Common Stock to make trades in Canada.

The heightened regulatory scrutiny could have a negative impact on our ability to raise capital.

Our 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 our 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, SEC, 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 our industry may adversely affect our business and operations, 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.

Our business is subject to risk from changing regulatory and political environments surrounding the cannabis industry.

The success of our 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 33 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 our business, results of operations, financial condition or prospects.

Delays in enactment of new state or federal regulations could restrict our ability to reach strategic growth targets and lower return on investor capital. Our strategic growth strategy 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, our growth target, 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, our 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 us and our business, results of operations, financial condition and prospects.

We are 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 our 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. We have in place a detailed compliance program overseen and maintained by external state and local regulatory/compliance counsel. Our internal compliance team (consisting of managers for each respective business unit) implements the compliance program.

Our 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

Our 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 our computerized seed-to-sale system.

Additionally, we have created comprehensive standard operating procedures that include detailed descriptions and instructions for monitoring inventory at all stages of development and distribution. We 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.

The potential re-classification of cannabis in the United States could create additional regulatory burdens on our operations and negatively affect our results of operations.

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 (the "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 (the "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 U.S. Drug Enforcement Agency (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 Canadian Securities Administrators 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 upheld the DEA's rule. We are unable to determine whether this decision will have a chilling effect on sales of CBD products and whether our business will be adversely affected.

Our participation in the cannabis industry may lead to costly litigation, which could adversely affect our financial condition and business operations.

Our participation in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against us or our investments. Litigation, complaints, and enforcement actions involving either us or our investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on our future cash flows, earnings, results of operations and financial condition.

There is uncertainty regarding the 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 us. As a result, our 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, we can provide no assurance that it will ever obtain any protection of its intellectual property, whether on a federal, state or local level.

Current constraints on marketing our products could adversely affect our sales and results of operations.

The development of our 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 we are unable to effectively market our 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 our products, our sales and results of operations could be adversely affected.

We could experience difficulty enforcing our contracts.

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

Our payments system may depend on third-party providers and is subject to evolving laws and regulations.

We have engaged third-party service providers in the past, and may do so again in the future, to perform underlying debit card processing. If these service providers do not perform adequately our ability to process payments could be adversely affected and our business would be harmed.

The laws and regulations related to payments are complex and are potentially impacted by tensions between federal and state treatment of the cannabis industry. These laws and regulations also vary across different jurisdictions in which we operate. As a result, we are required to spend significant time and effort to comply with those laws and regulations. Any failure or claim of our failure to comply, or any failure by our third-party service providers to comply, could cost us substantial resources, could result in the failure of the third-party service provider to pay us, or could result in liabilities, which could have a material adverse effect on the Company.

Risks Related to the Business

Our business may be materially adversely affected by the recent COVID-19 outbreak.

The recent outbreak of the coronavirus, or COVID-19, which has been declared by the World Health Organization to be a "pandemic," has spread across the globe and is impacting worldwide economic activity. A public health epidemic, including COVID-19, or the fear of a potential pandemic, poses the risk that we or our employees, contractors, suppliers, and other partners may be prevented from conducting business activities for an indefinite period of time, and our customers may be prevented from purchasing our products, due to shutdowns, "stay at home" mandates or other preventative measures that may be requested or mandated by governmental authorities. On March 20, 2020, Nevada Governor Sisolak ordered all cannabis dispensaries to close their retail operations and we became limited to delivery-only retail sales. Although we are now permitted to make curbside and limited in-store, we were initially adversely affected by these limitations. Our wholesale business has also been adversely affected due to the impact of the pandemic on the businesses or our wholesale customers. While it is not possible at this time to estimate the impact that COVID-19 (or any other actual or potential pandemic) could have on our business, or the duration of the pandemic, the continued spread of COVID-19 (or any other actual or potential pandemic) and the measures taken by the U.S. federal and state governments, could disrupt the manufacture or sale of our products and adversely impact our business, financial condition or results of operations. It could also affect the health and availability of our workforce at our facilities, as well as those of our suppliers, wholesale and retail customers. The extent to which the COVID-19 outbreak impacts our results will depend on future developments that are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus and the actions to contain its impact. Because cannabis remains federally illegal, it is likely that we will not be eligible to participate in any federal government relief programs (such as Small Business Administration loans that were recently announced) resulting from COVID-19 or any other actual or potential pandemic.

The spread of the COVID-19 outbreak has caused severe disruptions in the U.S. and global economy and financial markets and could potentially create widespread business continuity issues of unknown magnitude and duration.

The outbreak of COVID-19 has severely impacted global economic activity and caused significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and many countries, including the United States, have reacted by instituting quarantines and restricting travel. Many experts predict that the outbreak will trigger a period of global economic slowdown or a global recession. COVID-19 or another pandemic could have material and adverse effects on our ability to successfully operate due to, among other factors:

- a general decline in business activity of cannabis dispensaries;
- the destabilization of markets that could negatively impact our customer and user growth and limit access to capital and credit markets which could affect our access to capital necessary to fund business operations or address maturing liabilities on a timely basis; and
- a deterioration in our ability to ensure business continuity during a disruption.

The rapid development of this situation makes it nearly impossible to predict the ultimate adverse impact of COVID-19 on our business and operations. Nevertheless, COVID-19 presents material uncertainty which could adversely affect our results of operations, financial condition and cash flows. We continue to assess the potential impact of COVID-19, which remains uncertain at this time.

We will require additional financing to support our on-going operations.

We 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. A number of factors could cause us to incur higher borrowing costs and experience greater difficulty accessing public and private markets for debt. These factors include disruptions or declines in the global capital markets and/or a decline in our financial performance, outlook, or credit ratings. There can be no assurance that additional financing will be available to us when needed or on terms which are acceptable. Our inability to raise financing to fund on-going operations, capital expenditures or acquisitions may adversely affect our ability to fund our operations, meet contractual commitments, make future investments or desirable acquisitions, or respond to competitive challenges and may have a material adverse effect upon our business, results of operations, financial condition or prospects.

If additional funds are raised through further issuances of equity or convertible debt securities, existing stockholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Stock. 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 us to obtain additional capital and to pursue business opportunities, including potential acquisitions.

We may have difficulty continuing as a going-concern.

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. Our 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 we 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 we be unable to continue as a going-concern.

We had negative cash flow for the financial year ended May 31, 2020

We had negative operating cash flow for the financial year ended May 31, 2020. To the extent that we have negative operating cash flow in future periods, we may need to allocate a portion of our cash reserves to fund such negative cash flow. We may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that we will be able to generate a positive cash flow from our operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favorable to the Company.

We may experience difficulties in generating profits.

We may experience difficulties in our 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 our business, prospects, results of operations and financial condition.

We will likely incur significant costs and obligations in relation to our on-going and anticipated business operations.

We expect to incur significant on-going costs and obligations related to our investment in infrastructure and growth and for regulatory compliance, which could have a material adverse impact on our 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 our 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.

Our business is reliant on Oasis and City Trees.

Our current activities and resources are focused on Oasis and City Trees. The licenses held by the Oasis LLCs are specific to Oasis and City Trees. Adverse changes or developments affecting any of Oasis or City Trees, including but not limited to, a breach of security, could have a material and adverse effect on our business, financial condition and prospects. Any breach of the security measures and other facility requirements, could also have an impact on the Oasis LLCs' ability to continue operating under their respective licenses or the prospect of renewing their respective licenses. Oasis and City Trees continue to operate with routine maintenance however buildings do have components that require replacement. The Company will bear many, if not all, of the costs of maintenance and upkeep of Oasis and City Trees. Our operations and financial performance may be adversely affected if any of Oasis and City Trees are unable to keep up with maintenance requirements.

Furthermore, given our reliance on Oasis and City Trees, any negative publicity could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, terrorist attacks, increases in energy prices, or natural or man-made disasters, or the enactment of more stringent state and local laws and regulations.

We are reliant on key employees in the management of our business and loss of their services could materially adversely affect our business.

Our success is dependent upon the ability, expertise, judgment, discretion and good faith of our 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 our business, operating results, financial condition or prospects.

Our business is heavily regulated which could have a material adverse effect on our results of operations and financial condition.

The business and activities of the Company are heavily regulated in all jurisdictions where it carries on business. Our 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 our products and services. Achievement of our 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 our 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.

We 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 our business, the suspension or expulsion from a particular market or jurisdiction or of our 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 our 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.

Our business is subject to general regulatory risks, which could negatively impact our operations.

Our 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 our 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.

We are required to obtain or renew further government permits and licenses for our 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 our part. The duration and success of our efforts to obtain, amend and renew permits and licenses are contingent upon many variables not within our control, including the interpretation of applicable requirements implemented by the relevant permitting or licensing authority. We may not be able to obtain, amend or renew permits or licenses that are necessary to our 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 our business, financial condition, results of operations or prospects.

While our compliance controls have been developed to mitigate the risk of any material violations of any license we hold, there is no assurance that our 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 our business, financial condition, results of operations or prospects.

We 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 our 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 our business, financial condition, results of operations or prospects.

Changes in laws, regulations and guidelines could have a material adverse effect on the business, results of operations and financial condition of the Company.

Our 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 we are currently in compliance with all such state 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 could have a material adverse effect on our operations.

Industry conditions are influenced by numerous factors over which we have 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 our business, financial condition, results of operations and cash flows.

Our industry is subject to intense 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. If we are unable to compete effectively, it could decrease our customer traffic, sales and profit margins, which could adversely affect our business, financial condition, and results of operations.

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. We 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. We 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. We have some international partnerships in place, which may be effected if more countries legalize medical marijuana. Increased international competition might lower the demand for our products on a global scale.

New well-capitalized entrants in our industry may develop large-scale operations which will make it difficult for our business to compete and remain profitable.

Currently, the marijuana industry generally is comprised largely 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.

Our 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 our 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.

We could incur risks and uncertainties regarding our future acquisitions and dispositions.

Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) potential disruption of our 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 our operations; and (vi) loss or reduction of control over certain of our assets.

The presence of one or more material liabilities of an acquired company that are unknown to us 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 our 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 our operations.

Acquisitions and strategic collaborations 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 in various states. 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 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.

Failure to successfully integrate acquired businesses, their products and other assets into the Company, or if integrated, failure to further our business strategy, may result in our inability to realize any benefit from such acquisition.

We have grown by acquiring Alternative Solutions. The consummation and integration of any acquired business, product or other assets into the Company may be complex and time consuming and, if not successfully integrated, the Company may not achieve the anticipated benefits, cost-savings or growth opportunities. Furthermore, even if successfully integrated, the acquisition target may fail to further the Company's business strategy as anticipated, expose the Company to increased competition or other challenges with respect to the Company's products or geographic markets, and expose the Company to additional liabilities associated with an acquired business, technology or other asset or arrangement.

When the Company acquires cannabis businesses, it may obtain the rights to applications for licenses as well as licenses; however, the procurement of such applications for licenses and licenses generally will be subject to governmental and regulatory approval. There are no guarantees that the Company will successfully consummate such acquisitions, and even if the Company consummates such acquisitions, the procurement of applications for licenses may never result in the grant of a license by any state or local governmental or regulatory agency and the transfer of any rights to licenses may never be approved by the applicable state and/or local governmental or regulatory agency.

The Company is a holding company.

The Company is a holding company and essentially all of its assets are the capital stock of its material subsidiaries. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. Consequently, our cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and investments and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

We have a limited operating history.

The Company and its subsidiaries have varying and limited operating histories, which can make it difficult for investors to evaluate our operations and prospects and may increase the risks associated with investment into the Company.

We have not generated profits in the periods covered by our financial statements included herein, and, as a result, have only a very limited operating history upon which our business and future prospects may be evaluated.

Although the Company expects to generate substantial revenues from its subsidiaries, the subsidiaries are not yet continually generating a net profit and accordingly, we are therefore expected to remain subject to many of the risks common to early-stage enterprises for the foreseeable future, including challenges related to laws, regulations, licensing, integrating and retaining qualified employees; making effective use of limited resources; achieving market acceptance of existing and future solutions; competing against companies with greater financial and technical resources; acquiring and retaining customers; and developing new solutions. There is no assurance that the Company will be successful in achieving a return on stockholders' investment and the likelihood of success must be considered in light of the early stage of operations.

Potential reputational risks to third parties could result in difficulties in maintaining our operations.

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of our medical marijuana business activities. While we have other banking relationships and believe 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.

Changes in public opinion and perception could negatively affect our business operations.

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 our expansion strategy may have a material adverse effect on its business, results of operations or prospects.

We may be subject to unfavorable publicity or consumer perception which could negatively affect our results of operations.

We believe 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 costs may negatively impact our results of operations.

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.

We may experience 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 our 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 our commercialization plans and our business, prospects, results of operations and financial condition.

We are dependent on the success of our new and existing products and services.

We have committed, and expect to continue to commit, significant resources and capital to develop and market existing product and service enhancements and new products and services, including those using our patented processes. These products and services are relatively untested, and the Company cannot guarantee that they will operate as expected or 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.

We are dependent on the continued market acceptance by consumers of our products.

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

We may incur significant expenses in promoting and maintaining brands, which could negatively impact our profitability.

We believe 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 our 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.

The results of future clinical research may negatively impact our business.

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 our Common Stock 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 our products with the potential to lead to a material adverse effect on our business, financial condition, results of operations or prospects.

We are reliant on key inputs and changes in their costs could negatively impact our profitability.

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.

Our business is subject to certain environmental risks.

Our operations are subject to environmental regulation in the various jurisdictions in which we operate. 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 our operations.

Government approvals and permits are currently, and may in the future, be required in connection with our 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. We may be required to compensate those suffering loss or damage by reason of our 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.

Our business is subject to certain agricultural risks.

Our 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.

Our business is vulnerable 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.

We are dependent on equipment and skilled labor.

Our ability to compete and grow is dependent on our having access, at a reasonable cost and in a timely manner, to skilled labor, equipment, parts and components. No assurances can be given that we will be successful in maintaining our required supply of skilled labor, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by our capital expenditure plans may be significantly greater than anticipated by our management, and may be greater than funds available to us, 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.

The market for our products is difficult to forecast and our forecasts may not be accurate which could negatively impact our results of operations.

We must rely largely on our 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 our 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.

We are subject to certain risks regarding the management of our growth.

We may be subject to growth-related risks including capacity constraints and pressure on our 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 our business, financial condition, results of operations or prospects.

We may experience difficulties in maintaining adequate 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 our 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 our Consolidated Financial Statements and materially adversely affect the trading price of our Common Stock**.**

Certain of our officers and directors may have 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.

We may become subject to costly litigation regarding our operations.

We may become party to litigation from time to time in the ordinary course of business which could adversely affect our business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect our ability to continue operating and the market price for our Common Stock. Even if we are involved in litigation and win, litigation can redirect significant company resources.

We are subject to product liability regarding our products, which could result in costly litigation and settlements.

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 our 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 our products alone or in combination with other medications or substances could occur. We may be subject to various product liability claims, including, among others, that our 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 our reputation with our clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. Although we have secured product liability insurance, and strictly enforce a quality standard within the operations, there can be no assurances that we will be able to maintain our product liability insurance on acceptable terms or with adequate coverage against potential liabilities. This scenario could prevent or inhibit the commercialization of our potential products. To date, there have been no product related issues.

Our products may become subject to product recalls, which could negatively impact our results of operations.

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 our 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. We 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 we have 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 our 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 Company'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 our operations by the U.S. FDA, Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

We are subject to certain intellectual property risks.

Our 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. We have certain proprietary intellectual property, including but not limited to brands, trademarks, trade names, patents and proprietary processes. We 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 our proprietary information and adopt it in a competitive manner. Any loss of intellectual property protection may have a material adverse effect on our 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 us. As a result, our 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.

We 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 we will have the financial or other resources to enforce our rights or prevent other parties from developing similar technology or designing around our intellectual property. Although we believe that our 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 our business.

We are 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 our 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 our 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 our business and financial condition.

Fraudulent or illegal activity by employees, contractors and consultants could negatively impact our operations.

We are exposed to the risk that our 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 us 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 the Company, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our 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 our operations, any of which could have a material adverse effect on our business, financial condition, results of operations or prospects.

We are subject to certain risks regarding our information technology systems and cyber-attacks.

Our operations depend, in part, on how well we and our 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. Our 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 our reputation and results of operations.

We have 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. Our 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.

If we experience security breaches, it could negatively impact our operations and result in litigation or civil penalties and fees.

Given the nature of our 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 our 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 our products.

In addition, the Company collects and stores personal information about its customers 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 our business, financial condition and results of operations.

The lack of reliable data on the medical marijuana industry may negatively impact our results of operations.

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 our management team as of the date of this document.

We do not have long-term agreements or guaranteed price or delivery arrangements with most of our suppliers. The loss of a significant supplier would require us to rely more heavily on our other existing suppliers or to develop relationships with new suppliers. Such a loss may have an adverse effect on our product offerings and our business.

Consistent with industry practice, we do not have guaranteed price or delivery arrangements with most of our suppliers. We generally make our purchases through purchase orders, although we have some internal processing capabilities through City Trees. As a result, we have experienced and may in the future experience inventory shortages or price increases on certain products. Furthermore, our industry occasionally experiences significant product supply shortages, and we sometimes experience customer order backlogs due to the inability of certain suppliers to make available to us certain products as needed. We cannot assure you that suppliers will maintain an adequate inventory of products to fulfill our orders on a timely basis, or at all, or that we will be able to obtain particular products on favorable terms, or at all. Additionally, we cannot assure you that product lines currently offered by suppliers will continue to be available to us. A decline in the supply or continued availability of the products of our suppliers, or a significant increase in the price of those products, could reduce our sales and negatively affect our operating results.

In addition, some of our suppliers have the ability to terminate their relationships with us at any time, or to decide to sell, or increase their sales of, their products through other channels. Although we believe there are numerous suppliers with the capacity to supply the products we distribute, the loss of one or more of our major suppliers could have an adverse effect on our product offerings and our business. Such a loss would require us to rely more heavily on our other existing suppliers, develop relationships with new suppliers or undertake our own manufacturing, which may cause us to pay higher prices for products. Any termination, interruption or adverse modification of our relationship with a key supplier or a significant number of other suppliers would likely adversely affect our operating income, cash flow and future prospects.

We are subject to certain operating risks for which our insurance coverage may not be adequate.

Our 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, labor 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.

We continuously monitor our operations for quality control and safety. However, there are no assurances that our safety procedures will always prevent such damages. Although we maintain insurance coverage that we believe 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 we will be able to maintain adequate insurance in the future at rates we consider 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 us, our ability to conduct normal business operations and on our business, financial condition, results of operations and cash flows in the future.

We may have uninsured or uninsurable risk.

We may be subject to liability for risks against which we cannot insure or against which we 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 our normal business activities. Payment of liabilities for which the Company does not carry insurance may have a material adverse effect on our financial position and operations.

We may issue 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 our 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 favorable terms to us. Neither our articles nor our by-laws limit the amount of indebtedness that the Company may incur. As a result, the level of our 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.

Certain remedies stockholders may seek against our officers and directors may be limited and such officers and directors may be entitled to indemnification by the Company.

Our governing documents provide that the liability of our Board and officers is eliminated to the fullest extent allowed under the laws of the State of Nevada. Thus, the Company and the stockholders of the Company may be prevented from recovering damages for alleged errors or omissions made by the members of the Board and its officers. Our 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.

We are dependent on attracting new customers.

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

We are subject to interest rate risks.

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. Our 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.

We are subject to certain credit risks.

We are exposed to credit risk through our cash and cash equivalents. Credit risk arises from deposits with banks and attorneys and outstanding receivables. We do not hold any collateral as security but mitigate this risk by dealing only with what management believes to be financially sound counterparties, however there can be no assurance that we will not suffer loss.

Risks related to the Ownership of our Common Stock

Our directors and officers control a large portion of our Common Stock.

The officers and directors of the Company currently own approximately 25.3% of the issued and outstanding shares of Common Stock. Our stockholders nominate and elect the Board, which generally has the ability to control the acquisition or disposition of our assets, and the future issuance of our Common Stock or other securities. Accordingly, for any matters with respect to which a majority vote of our Common Stock may be required by law, our directors and officers may have the ability to control such matters. Because the directors and officers control a substantial portion of such Common Stock, investors may find it difficult or impossible to replace our directors if they disagree with the way our business is being operated.

Because our common stock is deemed a low-priced "Penny" stock, an investment in our common stock should be considered high risk and subject to marketability restrictions.

Since our common stock is a penny stock, as defined in Rule 3a51-1 under the Exchange Act, it will be more difficult for investors to liquidate their investment. The SEC 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 shares of Common Stock are covered by the penny stock rules pursuant to Rule 15g-9 under the Exchange Act, 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 our securities. Management believes that the penny stock rules could discourage investor interest in and limit the marketability of our Common Stock.

Financial Industry Regulatory Authority 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, the U.S. Financial Industry Regulatory Authority ("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 our Common Stock to customers which may limit an investor's ability to buy and sell our Common Stock, have an adverse effect on the market for our Common Stock, and thereby negatively impact the price of our Common Stock.

We are subject to market price volatility risks.

The market price of our Common Stock 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 our 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 our Common Stock.

Our Common Stock is subject to liquidity risks.

In the United States, our Common Stock trades 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 our securities may be unable to resell their securities at or near their original acquisition price, or at any price.

We cannot predict at what prices our Common Stock will trade and there can be no assurance that an active trading market will develop or be sustained. Commencing in January 2019, our Common Stock began trading on the CSE. We have not developed other liquidity on this exchange and we cannot guaranty that we will do so in the future. There is a significant liquidity risk associated with an investment in the Company.

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 stockholder 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 to increase the number of outstanding shares and discourage a takeover attempt; limit who may call special meetings of stockholders; and require advance notice for business to be conducted at stockholder meetings, among other anti-takeover provisions.

Our directors have the authority to issue common and preferred shares without stockholder 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 stockholders 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 do not expect to pay any cash dividends for the foreseeable future.

The continued operation and expansion of our business may require substantial funding. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our Common Stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon results of operations, financial condition, contractual restrictions, including any indebtedness we may incur, restrictions imposed by applicable law and other factors our Board of Directors deems relevant.

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 our 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.

If securities analysts or industry analysts downgrade our shares, publish negative research or reports, or cease to publish reports about our business, our share price and trading volume could decline.

The trading market for our Common Stock is influenced by the research and reports that industry or securities analysts publish about us, our business and our industry. If one or more analysts adversely change their recommendation regarding our shares or our competitors' stock, our share price would likely decline. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline. As a result, the market price for our Common Stock may decline below the offering price and you might not be able to resell your shares of our Common Stock at or above the offering price.

Item 1B. Unresolved Staff Comments.

Not Applicable.

Item 2. Properties.

Our principal address is 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. Alternative Solutions and the Oasis LLCs lease space for a dispensary and administrative offices at 1800 Industrial Road, Suite 180, Las Vegas, Nevada 89102, and for a cultivation and processing facility at 203 E. Mayflower Avenue, North Las Vegas, Nevada 89030.

On July 6, 2014, Alternative Solutions entered into a Lease Agreement with 1800 Industrial, LLC (the "1800 Industrial Lease") for the lease of a 1,000 square foot storefront and 5,900 square foot warehouse for the use of a medical marijuana dispensary and related uses, as approved by the City of Las Vegas and State of Nevada. Pursuant to the terms of the 1800 Industrial Lease, as amended, basic monthly rent payments are currently $8,955.38 per month, plus $600 as a driveway fee. The 1800 Industrial Lease had an initial term of five (5) years with one renewal option to renew for a five year term with rent starting at the then market rate for like spaces, but not less than rent for the fifth year of the original lease term. By Lease Addendum dated June 13, 2018, the 1800 Industrial Lease was renewed for a term of five (5) years, beginning July 1, 2018 and ending June 30, 2023, with one renewal option to renew for a five (5) year term with rent starting at the then market rate for like spaces, but not less than rent for the fifth year of the original lease term. On June 13, 2018, Alternative Solutions assigned the 1800 Industrial Lease to the Company.

On February 1, 2019, CLS Nevada, Inc. entered into a Lease Agreement with 1800 Industrial, LLC (the "1800 Industrial Suite 100 Lease") for the lease of 2,504 square feet used for administrative offices and merchandise storage. Pursuant to the terms of the 1800 Industrial Suite 100 Lease, as amended, basic monthly rent payments are currently $3,338.71 per month. The 1800 Industrial Suite 100 Lease has an initial term of eighteen (18) months with one renewal option to renew for a 34-month term with rent starting at the then market rate for like spaces, but no less than rent for the 18th month of the original lease term. The renewal term is intended to coincide with the expiration/renewal of the 1800 Industrial Lease. Under the original terms of the 1800 Industrial Suite 100 Lease, on July 1, 2023, the lease could have been renewed for an additional 60-month term with rent starting at the market rate, but not less than rent for the 34th month of the first renewal lease term.

On February 1, 2019, CLS Nevada, Inc. entered into a Lease Agreement with 1800 Industrial, LLC (the "1718 Industrial Road Lease") for the lease of 1,400 square feet which is not currently being used. Pursuant to the terms of the 1718 Industrial Road Lease, basic monthly rent payments are currently $1,866.70 per month. The 1718 Industrial Road Lease has an initial term of eighteen (18) months with one renewal option to renew for a 34-month term with rent starting at the then market rate for like spaces, but no less than rent for the 18th month of the original lease term. The renewal term is intended to coincide with the expiration/renewal of the 1800 Industrial Lease. On July 1, 2023, the Lease may be renewed for an additional 60-month term with rent starting at the market rate, but not less than rent for the 34th month of the first renewal lease term.

By Lease Addendum dated February 25, 2020, the terms of the 1800 Industrial Lease and the 1800 Industrial Suite 100 Lease were modified to provide for lease terms ending February 28, 2030, with two five (5) year renewal options, a 3% increase of the base rent commencing every annual anniversary and an increase in rent of $600 per month as a driveway fee.

On December 3, 2015, Serenity Wellness Growers, LLC ("Serenity Wellness") and SFC Leasing, LP ("SFC"), entered into a Standard Industrial/Commercial Single Tenant Lease with an Option to Purchase Lease Rider (the "SFC Lease") pursuant to which Serenity Wellness leases approximately 22,000 square feet from SFC used for the cultivation, processing, and other legal uses related to medical marijuana, including general office/administrative, storage, sales and distribution. The SFC Lease has an initial term of five years and two months with one renewal option for a five year term. Pursuant to the terms of the SFC Lease, Serenity Wellness paid an initial security deposit in the amount of $50,000. On January 12, 2016, the parties entered into a First Amendment to the SFC Lease to modify the base rent schedule and to require two additional $50,000 security deposits for a total security deposit equal to $150,000. Any unused portion of the $150,000 security deposit shall be applied to the purchase price in the event that Serenity Wellness exercises the Option to Purchase. Pursuant to the terms of that certain Second Amendment to the SFC Lease between the parties, monthly base rent is currently $21,500 per month and will increase to $25,000 per month for the period from January 1, 2019 through December 31, 2019, and $29,000 per month for the period from January 1, 2020 through February 28, 2021. As required under the SFC Lease, on June 11, 2018, Serenity Wellness and SFC entered into a Landlord Consent agreeing to the change in control in the ownership of Serenity Wellness following the Oasis Acquisition.

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.

On March 3, 2020, we filed a claim for declaratory relief, among other things, in the Superior Court of Suffolk County, Massachusetts, requesting the Court declare we validly exercised our option to acquire In Good Health, Inc. ("IGH") and instruct IGH to comply with our diligence requests and ultimately execute a merger agreement with us. The dispute regarding whether we properly exercised our option dated October 31, 2018, as amended, to acquire IGH arose after we delivered a notice of exercise to IGH and IGH subsequently asserted that our exercise was invalid. We intend to pursue this suit vigorously and believe that our claims are meritorious, however, there can be no assurance as to the ultimate outcome of this matter.

Item 4. Mine Safety Disclosures.

Not Applicable.

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 Markets' OTCQB under the symbol "CLSH". Commencing in January 2019, we also listed our Common Stock on the CSE under the symbol "CLSH". We have no outstanding shares of preferred stock.

The following table sets forth the range of high and low sales prices on the OTCQB for the applicable periods on a post-Reverse-Split basis.

	Common Stock	
	High ($)	Low ($)
Fiscal Year Ended May 31, 2020:		
Fourth Quarter	$ 0.1655	$ 0.0565
Third Quarter	$ 0.25	$ 0.10
Second Quarter	$ 0.2999	$ 0.1995
First Quarter	$ 0.37	$ 0.20
Fiscal Year Ended May 31, 2019:		
Fourth Quarter	$ 0.4737	$ 0.24
Third Quarter	$ 0.95	$ 0.26
Second Quarter	$ 1.20	$ 0.80
First Quarter	$ 1.35	$ 0.525

At August 19, 2020, we had 126,521,416 outstanding shares of Common Stock and approximately 64 stockholders of record. The number of record holders was determined from the records of our transfer agent and does not include beneficial owners of common stock whose shares are held in the names of bank, brokers and other nominees. We have no outstanding shares of preferred stock.

Dividend Policy

We have not paid any cash dividends on our Common Stock to date. Any future decisions regarding dividends will be made by our Board of Directors. We do not anticipate paying dividends in the foreseeable future, but expect to retain earnings to finance the growth of our business. Our Board of Directors has complete discretion on whether to pay dividends. Even if our Board of Directors decides to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant.

Purchases of Equity Securities by the Small Business Issuer and Affiliates

None.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes as of May 31, 2020, 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 Andrew Glashow 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. We are currently unable to determine the number of shares that could be granted under these plans.

Penny Stock Regulations

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than $5.00 per share. Our Common Stock, when and if a trading market develops, may fall within the definition of penny stock and be subject to rules that impose additional sales practice requirements on broker-dealers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of $1,000,000, or annual incomes exceeding $200,000 individually, or $300,000, together with their spouse).

For transactions covered by these rules, the broker-dealer must make a special suitability determination for the purchase of such securities and have received the purchaser's prior written consent to the transaction. Additionally, for any transaction, other than exempt transactions, involving a penny stock, the rules require the delivery, prior to the transaction, of a risk disclosure document mandated by the SEC relating to the penny stock market. The broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market. Finally, monthly statements must be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks. Consequently, the penny stock rules may restrict the ability of broker-dealers to sell our Common Stock and may affect the ability of investors to sell their Common Stock in the secondary market.

Item 6. Selected Financial Data.

Not applicable.

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

History and Outlook

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

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

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

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

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

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

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

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

By letter dated February 26, 2020, we informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. We further advised IGH that we were electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the IGH Note. On March 3, 2020, we filed a claim for declaratory relief, among other things, requesting the court declare that CLS Massachusetts had validly exercised the IGH Option and instruct IGH to comply with its diligence requests and ultimately execute a merger agreement with us. The dispute regarding whether CLS Massachusetts properly exercised the IGH Option arose after CLS Massachusetts delivered a notice of exercise to IGH and IGH subsequently asserted that CLS Massachusetts' exercise was invalid. CLS and CLS Massachusetts intend to pursue this suit vigorously and believe that their claims are meritorious, however, there can be no assurance as to the ultimate outcome of this matter.

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

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

We incurred a net loss of $30,657,973 for the year ended May 31, 2020, resulting in an accumulated deficit as of May 31, 2020 of $76,846,124. These conditions raise substantial doubt about our ability to continue as a going concern.

Recent Developments – COVID-19

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

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

Beginning in May of 2020, the Las Vegas casinos began to re-open and the hotels resumed operations although the tourist and convention business has not returned to pre-pandemic levels. However, because 80% of our customer base is local residents, our business has not been as heavily impacted by this change. Our challenge now will be to retain and grow our local customer base until such time as the tourist and convention business returns to pre-pandemic levels.

Our manufacturing facility has continued to operate throughout the pandemic, but initially it operated primarily for the purposes of manufacturing City Trees products to be sold at our dispensary. The wholesale business initially declined substantially as the sales staff was unable to make sales calls and most dispensaries curtailed purchasing products from third parties, electing instead only to offer their own products for sale at their dispensaries. As a result, we initially furloughed two employees who worked at our manufacturing facility. Although we did not face shortages of extraction materials, we were initially impacted by the limited availability of certain materials, such as the supply of masks, gowns and other protective equipment, due to the global shortage of such protective equipment and materials. In recent months, our manufacturing and wholesale business slowly began to grow again as our customers resumed purchasing and more normal operations. Although our revenues have not yet reached pre-pandemic levels, they continue to trend positively and we have re-hired our furloughed workers who wished to return to work.

It is impossible for us to predict whether there will be additional government-mandated closures that could affect our business, how long the existing closures will remain in place, and how these measures will impact our operations. Although cannabis dispensaries in Nevada have been designated as “essential,” this designation could change and it is possible that statewide or local re-opening protocols might be reversed if COVID-19 cases were to sharply increase and that we once again might be forced to limited or even close our manufacturing facilities or dispensary operations to protect our customers and employees. Even if our production facilities and delivery operations remain open, mandatory or voluntary self-quarantines and travel restrictions may limit our employees’ ability to get to our facilities or to customers’ homes, and this, together with the uncertainty produced by the rapidly evolving nature of the COVID-19 outbreak, may result in a suspension of or decline in production or retail sales. These types of restrictions could also impact the abilities of customers in Nevada to continue to have access to our products. Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur, could impact personnel at third-party grow and manufacturing facilities in Nevada and elsewhere. Additionally, delays in shipping as a result of COVID-19 may impact our ability to obtain materials in a timely manner. Finally, due to the initial almost complete elimination of the tourist and convention business in Las Vegas, dispensaries who relied heavily on such customers are now competing with us for local customers. Some of these competitors have greater financial resources than we do and could offer aggressively lower prices to lure in local customers. Although the effects of the COVID-19 outbreak do not currently appear to be having a negative impact on our financial results, which are presently trending upward, it is impossible for us to predict whether this trend will continue and how our financial results may be impacted in the long term if the pandemic continues for the balance of 2020 and possibly into 2021. At this time, neither the duration nor scope of the disruption can be predicted, therefore, the ultimate impact to our business cannot be reasonably estimated but such impact could be material.

Results of Operations for the Years Ended May 31, 2020 and May 31, 2019

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

	Year Ended May 31, 2020	Year Ended May 31, 2019
Revenue	100%	100%
Cost of Goods Sold	50%	57%
Gross Margin	50%	43%
Selling, General, and Administrative Expenses	74%	313%
Interest expense, net	25%	53%

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

	Year Ended May 31, 2020	Year Ended May 31, 2019
Number of Customers Served (Dispensary)	228,458	134,009
Revenue	$ 11,917,629	$ 8,459,048
Gross Profit	$ 5,958,343	$ 3,622,882
Impairment of Goodwill	$ 25,185,003	$ -
Net Loss	$ (30,657,973)	$ (27,619,057)

Revenues

We had revenue of $11,917,629 during the year ended May 31, 2020, an increase of $3,458,581, or 41%, compared to revenue of $8,459,048 during the year ended May 31, 2019. We acquired the Oasis LLCs, which are our only source of revenue, effective July 1, 2018, which means that fiscal 2020 included twelve months of operations of the Oasis LLCs but the comparable period during fiscal 2019 included only eleven months of operations of the Oasis LLCs. This is one of the reasons for the increase in revenues for fiscal 2020. Our cannabis dispensary accounted for $9,365,105, or 79%, of our revenue for the year ended May 31, 2020, an increase of $3,872,793, or 71%, compared to $5,492,312 during the year ended May 31, 2019. Dispensary revenue also increased during the 2020 fiscal year because our average sales per day increased from $16,395 during fiscal 2019 to $25,588 during fiscal 2020. Our cannabis production accounted for $2,552,524, or 21%, of our revenue for the year ended May 31, 2020, a decrease of $414,212, or 14%, compared to $2,966,736 for the year ended May 31, 2019. The decrease in production revenues for fiscal 2020 was primarily due to delays in making changes to our wholesale product mix dictated by market demand during construction of our state-of-the-art manufacturing facility. Such changes have now been implemented.

Cost of Goods Sold

Our cost of goods sold for the year ended May 31, 2020 was $5,959,286, an increase of $1,123,120, or 23%, compared to cost of goods sold of $4,836,166 for year ended May 31, 2019. The increase in cost of goods sold for the year ended May 31, 2020 was due primarily to our increase in sales during fiscal 2020. Cost of goods sold was 50% of sales during fiscal 2020 compared to 57% during fiscal 2019. This improvement in gross margin during fiscal 2020 was primarily due to a decrease in the cost of purchasing product as a result of the implementation of new processes, the retention of additional skilled employees and an improvement in inventory purchasing. Cost of goods sold during fiscal 2020 primarily consisted of $5,135,045 of product cost, $389,970 of state and local fees and taxes, $161,067 of supplies and materials, and $155,460 of shipping, delivery, and freight.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, decreased by $17,695,181, or approximately 67%, to $8,776,876 during the year ended May 31, 2020, compared to $26,472,057 for the year ended May 31, 2019. The decrease in SG&A expenses for the year ended May 31, 2020 was primarily due to one-time financing and acquisition costs attributable to the acquisition of the Oasis LLCs that occurred in fiscal 2019.

SG&A for the year ended May 31, 2020 did not include any one-time cash and non-cash financing and acquisition costs. During the year ended May 31, 2019, we incurred one-time cash and non-cash financing and acquisition costs in the aggregate amount of $15,857,068. The major components of these costs during the year ended May 31, 2019 were as follows: the fair value of additional warrants and special warrants issued due to the failure to meet certain registration statement filing requirements in connection with the Westpark offering and the Canaccord offering in the amount of $8,084,522; the fair value of the special warrants and compensation broker warrants issued to Canaccord in connection with our sale of the special warrants in the amount of $4,340,465; broker and agent fees and commissions in the amount of $2,350,993; the fair value of 700,000 shares of common stock issued to Star Associates, which is affiliated with one of our directors, for services in connection with the Oasis transaction of $490,000; a foreign exchange loss on conversion of the Canaccord funds from Canadian to U.S. dollars in the amount of $403,588; and a redemption premium on the YA PN II Note in the amount of $187,500.

SG&A expense during fiscal 2020 was primarily attributable to an aggregate of $6,124,806 in costs associated with operating the Oasis LLCs compared to $4,611,948 during the prior fiscal year. We acquired the Oasis LLCs effective June 27, 2018; as a result, we incurred a full year of these costs during the year ended May 31, 2020, compared to 11 months of these costs during fiscal 2019. The major components of the operating costs associated with the Oasis LLCs during the year ended May 31, 2020 are as follows: payroll and related costs of $3,421,119 compared to $2,401,167 in the prior year; lease, facilities and office costs of $1,075,219 compared to $838,051 in the prior year; sales, marketing, and advertising of $563,425 compared to $453,968 in the prior year; depreciation and amortization of $296,200 compared to $287,954 in the prior year; professional fees of $258,484 compared to $141,326 in the prior year; insurance of $250,656 compared to 240,451 in the prior year; taxes and licenses of $117,345 compared to $204,329 in the prior year; and reserve for doubtful accounts of $108,392 compared to $0 in the prior year. All of these costs increased during fiscal 2020 due to the growth in revenues of the Oasis LLCs during fiscal 2020, except taxes and licenses, which decreased by $86,984 compared to fiscal 2019 primarily due to a one-time license fee paid to the City of Las Vegas, Nevada.

Finally, SG&A also decreased by an aggregate of $3,352,085 during fiscal 2020 as a result of the expenses associated with the ongoing implementation of other aspects of our business plan and our general corporate overhead to an aggregate of $2,650,956 during fiscal 2020 from $6,003,041 during the prior fiscal year. The major components of these decreases compared to fiscal 2019 are as follows: professional fees decreased by $2,277,082; sales, marketing, and investor relations costs decreased by $928,831; non-cash compensation decreased by $302,810; facilities, office, and general costs decreased by $157,527; and travel costs decreased by $117,399. These decreases were primarily due to decreases in business development and financing activities. The decreases were partially offset by an increase in payroll and related costs of $278,695, which was the result of re-designating a management consultant to an officer in the last three months of fiscal 2019 causing all of his compensation to be included in payroll for fiscal 2020.

Impairment of Goodwill

We review the value of our intangible property on an annual basis as required by applicable accounting principles. Although our revenues and gross profits from our operation of the Oasis LLCs has improved since we acquired these companies as is projected by management to continue to improve, due to the sharp decline in our stock price over the last year, which translates to a lower enterprise value for our company as a whole, we calculated that the net carrying value of the goodwill associated with our acquisition of the Oasis LLCs in the amount of $25,742,899 exceeded the fair value by $25,185,003. As a result, we recorded a non-cash impairment charge to operations in this amount during the year ended May 31, 2020. Fair value was based upon the price of our common stock at May 31, 2020, of $0.06 per share, compared to our stock price at May 31, 2019, which was $0.30 per share. There was no comparable charge during fiscal 2019.

Interest Expense, Net

Our interest expense, net of interest income, was $2,941,131 for the year ended May 31, 2020, a decrease of $1,506,862, or 34%, compared to $4,447,993 for the year ended May 31, 2019. The decrease in interest expense was primarily due to a decrease in the amortization of the discounts on convertible notes payable to third parties by $1,928,497 compared to the prior fiscal year; the decrease was due primarily to amortization of the discounts on the YA PN I Note and YA PN II Note, both of which were fully amortized during the year ended May 31, 2019. The decline in interest expense for fiscal 2020 was partially offset by an increase in interest accrued on third party debt by $571,307 compared to the prior fiscal year, due to an increase in the average principal amount of outstanding debt during fiscal 2020. At May 31, 2020, we had a reduced outstanding debt balance due to third parties in the amount of $19,883,213, compared to $22,360,230 at May 31, 2019; however, $5,857,000 and $12,012,000, respectively, of the principal amount of debt outstanding at May 31, 2019 was incurred in October of 2018 and December of 2018, respectively, and interest expense was not incurred on these amounts for the entire twelve months of fiscal 2019. We also had interest income of $310,923 from the IGH Note and the CannAssist Note during the year ended May 31, 2020, compared to interest income of $178,258 from the IGH Note and the CannAssist Note during the prior fiscal year.

Gain on Settlement of Liabilities

During the year ended May 31, 2020, we made a prepayment on the Oasis Note in connection with the settlement of a dispute between the former owners of Alternative Solutions and a consultant, and the amount of $275,000, which we had accrued with respect to this dispute, was extinguished. There was no comparable transaction during the prior fiscal year.

Gain on Modification of Leases

During the year ended May 31, 2020, we revised several of our Nevada operating leases for the use of warehouse and office facilities, which resulted in a gain on modification of leases in the amount of $28,511. There was no comparable transaction during the prior fiscal year.

Loss on Disposal of Assets

During the year ended May 31, 2020, we recognized a loss on the disposal of assets in the amount of $16,817 in connection with the discontinued use of capitalized software. There was no comparable transaction during the prior fiscal year.

Loss on Revaluation of Contingent Liability

During fiscal 2019, we revalued the performance-based bonus potentially due to the sellers in connection with the Oasis Acquisition. Pursuant to our evaluation, we increased the amount of the contingent liability from $678,111 to $1,000,000 to reflect the increase in sales generated by the Oasis LLCs during the year ended May 31, 2019, which increased the likelihood that the performance criteria would be met and that the payment would be due. This resulted in a charge to operations in the amount of $321,889 during the year ended May 31, 2019. There was no such charge during the year ended May 31, 2020 when we made this performance-based payment.

Net Loss

Our net loss for the year ended May 31, 2020 was $30,657,973 compared to $27,619,057 for the year ended May 31, 2019, an increase of $3,038,916 or 11%. The increase in the net loss was primarily due to the impairment charge related to the impairment of goodwill in the amount of $25,185,003 incurred during fiscal 2020. The net loss per diluted share for the year ended May 31, 2020 was $0.24, compared to a net loss per diluted share of $0.27 for the year ended May 31, 2019. These amounts were computed based on the weighted average of 126,390,105 and 102,869,612 shares outstanding during the fiscal years ended May 31, 2020 and 2019, respectively.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital at May 31, 2020 and 2019:

	May 31, 2020	May 31, 2019
Current Assets	$ 7,941,808	$ 12,677,566
Current Liabilities	$ 1,882,216	$ 6,924,543
Working Capital (Deficit)	$ 6,059,592	$ 5,753,023

At May 31, 2020, we had working capital of $6,059,592, an increase of $306,569 from the working capital of $5,753,023 we had at May 31, 2019. Our working capital at May 31, 2020, includes $2,925,568 of cash. The increase in working capital was primarily the result of reclassifying from non-current to current assets the amount of $4,042,175 due to us under the IGH Note and our repayment of the Oasis Note in December 2019. At May 31, 2019, $4,724,521 due to us under the IGH Note was classified as a non-current asset. Our working capital needs will likely continue to increase, and if we require additional funds to meet them, we will seek additional debt or equity financing. We have operated at a loss since inception.

Cash flows used in operating activities were $3,162,965 during the year ended May 31, 2020, a decrease of $7,001,577, or 69%, compared to $10,164,542 during the year ended May 31, 2019. In deriving cash flows used in operating activities from the net losses for fiscal 2020 and fiscal 2019, there were net amounts of $27,194,179 and $18,020,266, respectively, of non-cash items that were added back to the net loss for each such year. For fiscal 2020, the most significant item added back to the net loss was $25,185,003 related to the impairment of goodwill; there was no comparable charge during fiscal 2019. We also recorded the following significant items: $1,647,664 of amortization of debt discounts associated with our convertible debt during fiscal 2020 compared to $3,576,161 during fiscal 2019; and $199,014 for shares of common stock and warrants issued to officers and consultants during fiscal 2020 compared to $944,324 during fiscal 2019. During fiscal 2019, we added back to the net loss the following significant items: $8,084,522 related to a financing penalty associated with the WestPark Offering; and $4,744,053 related to the value of warrants and units issued to placement agents and non-cash offering costs in connection with the Canaccord Offering. There were no comparable transactions during the year ended May 31, 2020.

Finally, our cash used in operating activities was affected by changes in the components of working capital. The amounts of the components of working capital fluctuate for a variety of reasons, including management's expectation of required inventory levels; the amount of accrued interest, both receivable and payable; the amount of prepaid expenses; the amount of accrued compensation and other accrued liabilities; the Company's accounts payable and accounts receivable balances; and the capitalization of right-to-use assets and liabilities associated with operating leases. The changes in working capital activity for the year ended May 31, 2020 differed compared to the prior fiscal year due to a change in accounting principles that requires us to account for operating leases in a different manner and separates the asset and liability components of them into right of use assets and operating lease liabilities. This accounting treatment was not in effect in fiscal 2019. In addition, the overall net change in the components of working capital resulted in an increase in cash from operating activities in the amount of $192,437 during the year ended May 31, 2020, compared to a decrease in cash from operating activities of $565,751 during the prior fiscal year. The more significant changes for the year ended May 31, 2020 were as follows: accrued interest increased by $1,300,715, compared to $995,941 during the prior fiscal year due to an increase in the principal amount of debt outstanding during the year ended May 31, 2020 (this increase was partially offset by a reduction in accrued interest that occurred when $1,553,082 of interest on our convertible debt was capitalized to principal pursuant to the applicable note terms); and we used $850,000 to pay a portion of the performance bonus to the sellers in connection with the Oasis Acquisition during fiscal 2020.

Cash flows used in investing activities were $438,090 for the year ended May 31, 2020, a decrease of $11,731,882, or 96%, compared to $12,169,972 during the year ended May 31, 2019. During the year ended May 31, 2020, we made cash payments for property, equipment, and intangible assets in the amount of $1,945,368 related to the expansion of our Warehouse Facility and completion of our state-of-the-art processing plant, compared to $1,037,262 in the prior year. We also made a loan to CannAssist in the amount of $175,000 during the year ended May 31, 2020, compared to loans we made to In Good Health and CannAssist in the aggregate amount of $5,150,000 during the prior year. These cash payments were partially offset by proceeds of $1,682,278 from the collection of $1,357,278 of principal on the CannAssist note receivable, and $325,000 from the collection of principal on the IGH note receivable. Finally, we made a net payment of $5,982,710 during fiscal 2019 to the sellers of Alternative Solutions in connection with that acquisition.

Cash flows used in financing activities were $3,999,168 for the year ended May 31, 2020, a decrease of $36,806,509 or 112%, compared to cash generated by financing activities of $32,807,341 during the year ended May 31, 2019. During the year ended May 31, 2020, we made principal payments in the amount of $3,999,168 on the Oasis Note, compared to principal payments on all notes payable (convertible notes payable and related party notes payable) in the aggregate amount of $1,097,637 during the prior year, which were comprised primarily of $100,000 paid on the AJG Group Note, $210,000 paid on the Blatt Note, $250,000 paid on the YA PN I Note, and $500,000 paid on the YA PN II Note. During fiscal 2019, we received cash in the amount of $18,369,000 from the issuance of convertible debentures in the 2018 U.S. Convertible Debenture Offering and 2018 Convertible Debenture Offering, and $15,535,978 from the sale of equity to Navy Capital and in the Canaccord Special Warrant Offering. There were no comparable transactions during fiscal 2020.

Third Party Debt

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

Name of Note	Original Principal Amount	Outstanding or Repaid	Payment Details
Todd Blatt	$ 210,000	Repaid	Repaid
AJG Group	$ 100,000	Repaid	Repaid
YA II PN Note	$ 750,000	Repaid	Repaid
	$ 250,000	Repaid	$250,000 plus interest converted into 700,616 shares of Common Stock.
	$ 250,000	Repaid	$250,000 plus interest converted into 640,068 shares of Common Stock.
Oasis Note	$ 4,000,000	Repaid	Repaid
2018 U.S. Convertible Debentures	$ 6,595,663	Outstanding	Due October 26-31, 2021. Amount due includes capitalized interest of $738,664.
2018 Convertible Debentures	$ 13,287,549	Outstanding	Due December 2021. Amount includes capitalized interest of $1,301,404 less conversion of principal in the amount of $25,856.

The YA II PN, Ltd. Notes

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

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

Commencing on December 1, 2018 and on the first day of each month thereafter through July 1, 2019, subject to certain exceptions, we shall pay to YA II one-eighth of the principal amount of the debentures, plus accrued and outstanding interest (the "Installment Amount"), plus 20% of the of the Installment Amount for Installment Amounts due within 180 days following the date of execution of the purchase agreement, and 25% of the Installment Amount for Installment Amounts due thereafter in cash or by converting such Installment Amount into shares of our Common Stock. if we have met the applicable conditions for such a conversion and as long as the conversion does not exceed certain maximum amounts. Each Installment Amount will be deferred to the maturity date if the daily dollar volume-weighted average price of our Common Stock equals or exceeds $0.40 per share for each of the 10 consecutive days preceding the fifth trading day prior to the respective installment date.

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

During the year ended May 31, 2019, YA II converted a total of $280,247, which consisted of $250,000 of principal and $30,247 of accrued interest, into 700,616 shares of Common Stock. On January 8, 2019, YA II converted $256,027, of which $250,000 was principal and $6,027 was accrued interest, into 640,068 shares of Common Stock.

On February 28, 2019, we redeemed all of the convertible debentures issued to YA II in full for total cash consideration of $964,787.

Blatt Note

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

AJG Group Note

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

Oasis Note

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

2018 U.S. Convertible Debenture Offering

Between October 25, 2018 and November 2, 2018, we entered into six subscription agreements, pursuant to which we agreed to sell, for an aggregate purchase price of $5,857,000, $5,857,000 in original principal amount of convertible debentures in minimum denominations of $1,000 each. The debentures bear interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen (18) months following their issuance, being payable by increasing the then-outstanding principal amount of the debentures. The debentures mature on a date that is three years following their issuance. The debentures are convertible into units at a conversion price of $0.80 per unit. Each unit consists of (i) one share of our Common Stock, par value $.001 and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of Common Stock at a price of $1.10. The debentures have other features, such as mandatory conversion in the event our Common Stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The debentures are unsecured obligations of the Company and rank pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. Navy Capital and its affiliates purchased $5,000,000 in principal amount of debentures, with the remaining $857,000 in principal amount being purchased by several unaffiliated purchasers. The debentures include a provision for the capitalization of accrued interest on a quarterly basis. At May 31, 2020, accrued interest in the aggregate amount of $738,664 had been capitalized, and the aggregate principal amount of the debentures was $6,595,664.

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

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

2018 Convertible Debenture Offering

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

We closed the 2018 Convertible Debenture Offering on December 12, 2018, issuing $12,012,000 million in 8% senior unsecured convertible debentures at the initial closing. At the closing, we paid the agents: (A)(i) a cash fee of $354,000 for advisory services provided to us in connection with the offering; (ii) a cash commission of $720,720, equivalent to 6.0% of the aggregate gross proceeds received at the closing of the offering; (B)(i) an aggregate of 184,375 units for advisory services; and (ii) a corporate finance fee equal to 375,375 units, which is the number of units equal to 2.5% of the aggregate gross proceeds received at the closing of the offering divided by the conversion price; and (C)(i) an aggregate of 442,500 advisory warrants; and (ii) 900,900 broker warrants, which was equal to 6.0% of the gross proceeds received at the closing of the offering divided by the conversion price. During the year ended May 31, 2020, principal in the amount of $25,856 was converted into 32,319 shares of common stock. The debentures include a provision for the capitalization of accrued interest on a quarterly basis. At May 31, 2020, accrued interest in the amount of $1,301,404 had been capitalized, and the principal amount of the debentures was $13,287,548.

The debentures are unsecured obligations of the Company, rank pari passu in right of payment of principal and interest and were issued pursuant to the terms of a debenture indenture, dated December 12, 2018, between the Company and Odyssey Trust Company as the debenture trustee. The debentures bear interest at a rate of 8% per annum from the closing date, payable on the last business day of each calendar quarter. For a period of 18 months from the closing date, any interest payable shall automatically accrue and be capitalized to the principal amount of the debentures and shall thereafter be deemed to be part of the principal amount of the convertible debentures.

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

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

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

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

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

Related Party Debt

David Lamadrid Note

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

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

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

Koretsky and Affiliate Notes

On August 6, 2018, we issued a convertible promissory note to Newcan, an entity owned by Frank Koretsky, a director of the Company, in the amount of $75,000 (the "Newcan Convertible Note 8"), to finalize the terms of repayment with respect to a certain loan made to the Company by Newcan on May 4, 2018, which was converted into 196,336 shares of Common Stock on October 23, 2018.

Binder Notes

On April 6, 2018, we issued Binder Convertible Note 9, in the amount of $37,500, to Mr. Binder with respect to certain compensation payable to Mr. Binder as of February 28, 2018, which was repaid in full on August 7, 2018.

Sales of Equity

The Canaccord Special Warrant Offering

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

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

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

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

The Navy Capital Investors

Effective July 31, 2018, we entered into a subscription agreement with Navy Capital Green International, Ltd., a British Virgin Islands limited company ("Navy Capital"), pursuant to which we agreed to sell to Navy Capital, for a purchase price of $3,000,000, 7,500,000 Units ($0.40 per unit), representing (i) 7,500,000 shares of our Common Stock, and (ii) three-year warrants to purchase an aggregate of 7,500,000 shares of our Common Stock (the "Navy Warrant Shares") at an exercise price of $0.60 per share of Common Stock. We valued the warrants using the Black-Scholes valuation model, and allocated gross proceeds in the amount of $1,913,992 to the common stock and $1,086,008 to the warrants. The closing occurred on August 6, 2018. In the subscription agreement, we also agreed to file, on or before November 1, 2018, a registration statement with the SEC registering the shares of Common Stock and Navy Warrant Shares issued to Navy Capital. If we fail to file the registration statement on or before that date, we must issue to Navy Capital an additional number of units equal to ten percent (10%) of the units originally subscribed for by Navy Capital (which will include additional warrants at the original exercise price). The warrant is exercisable from time to time, in whole or in part for three years. The warrant has anti-dilution provisions that provide for an adjustment to the exercise price in the event of a future sale of Common Stock at a lower price, subject to certain exceptions as set forth in the warrant. The warrant also provides that it is callable at any time after the bid price of our Common Stock exceeds 120% of the exercise price of the warrant for a period of 20 consecutive business days.

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

Liquidity and Capital Needs

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

During the next twelve months we do not have any capital projects planned. We may pursue additional acquisitions in the next twelve months but we have not entered into any definitive agreements with respect to either additional acquisitions or the capital necessary to finance them. If we do pursue any acquisitions, we would likely fund them with the proceeds of future equity sales, warrant exercise proceeds, loans or seller financings. We have not pursued the availability of any such sources at present.

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

Oasis Cannabis Transaction

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

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

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

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

The former owners of Alternative Solutions and the Oasis LLCs (other than Alternative Solutions) became entitled to a $1,000,000 payment from us because the Oasis LLC maintained an average revenue of $20,000 per day during the 2019 calendar year. We made a payment in the amount of $850,000 to the sellers on May 27, 2020. We deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The Oasis LLCs have not yet received the demand from the State of Nevada with the precise amount due and the amount escrowed is our best estimate of the pre-closing tax liability If the ultimate tax liability is less than $150,000, the balance of the escrowed amount will be paid to sellers. As of May 31, 2020, the $150,000 remains a liability on the Company’s balance sheet and $150,000 is recorded in an escrow account in the asset section of the Company’s balance sheet.

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

Consulting Agreements

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

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

On July 24, 2018, we issued 700,000 shares of Common Stock with a fair value of $490,000 to Star Associates for services in connection with the Oasis acquisition. Star Associates is controlled by Andrew Glashow, a director (and current officer) of the Company.

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

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

Going Concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. We have incurred continuous losses from operations since inception, and have an accumulated deficit of $76,846,124 as of May 31, 2020, compared to $46,188,151, as of May 31, 2019. That said, we had working capital of $6,059,592 as of May 31, 2020, compared to working capital of $5,753,023 at May 31, 2019. The report of our independent auditors for the year ended May 31, 2019, however, contained a going concern qualification. Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by early stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs, to borrow capital and to sell equity to support our plans to acquire operating businesses, open processing facilities and finance ongoing operations There can be no assurance 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.

Recently Issued Accounting Standards

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

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842): Accounting for Leases. This update requires that lessees recognize right-of-use assets and lease liabilities that are measured at the present value of the future lease payments at lease commencement date. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will largely remain unchanged and shall continue to depend on its classification as a finance or operating lease. We have performed a comprehensive review in order to determine what changes were required to support the adoption of this new standard. We adopted the ASU and related amendments on June 1, 2019 and expect to elect certain practical expedients permitted under the transition guidance. We elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Under the new guidance, the majority of our leases will continue to be classified as operating. During the first quarter of fiscal 2020, we completed our implementation of our processes and policies to support the new lease accounting and reporting requirements. This resulted in an initial increase in both our total assets and total liabilities in the amount of $1,781,446. The adoption of this ASU has not had a significant impact on our consolidated statements of operations or cash flows on an ongoing basis.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*. The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Adoption of ASU 2016-15 did not have a material effect 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 became effective for us on January 1, 2020. The amendments in this ASU will be applied on a prospective basis. The adoption of this ASU did not have a material impact on our consolidated financial statements.

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

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

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

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

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

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

Critical Accounting Estimates

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

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

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

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 and
Stockholders of CLS Holdings USA, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of CLS Holdings USA, Inc. (the Company) as of May 31, 2020 and 2019, 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, 2020, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of May 31, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended May 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

Going Concern

The accompanying 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 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 2. The 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 2011.

Houston, Texas

August 31, 2020

CLS Holdings USA, Inc.
Consolidated Balance Sheets

	May 31, 2020	May 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,925,568	$ 10,525,791
Accounts Receivable	161,409	163,571
Inventory	575,242	746,833
Prepaid expenses and other current assets	234,092	390,413
Interest receivable - current portion	3,322	-
Notes receivable - current portion	4,042,175	850,958
Total current assets	7,941,808	12,677,566
Investment	-	2,709
Note receivable	-	4,299,042
Interest receivable	-	178,258
Property, plant and equipment, net of accumulated depreciation of $868,200 and $546,408	3,775,509	1,910,301
Right of use assets, operating leases	1,403,429	-
Intangible assets, net of accumulated amortization of $242,389 and $116,476	1,421,204	1,525,087
Goodwill	557,896	25,742,899
Other assets	167,455	167,455
Total assets	$ 15,267,301	$ 46,503,317
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,172,883	$ 1,517,127
Accrued interest	222,433	474,800
Notes payable, net of discount of $0 and $67,384	-	3,932,616
Lease liability - operating leases, current	336,900	-
Contingent liability	150,000	1,000,000
Total current liabilities	1,882,216	6,924,543
Noncurrent liabilities		
Lease liability - operating leases, non-current	1,136,151	-
Convertible notes payable - Long Term, net of discount of $2,238,730 and $3,819,010	17,644,482	14,541,220
Total Liabilities	20,662,849	21,465,763
Commitments and contingencies	-	-
Stockholder's equity		
Preferred stock, $0.001 par value; 20,000,000 shares authorized; no shares issued	-	-
Common stock, $0.0001 par value; 750,000,000 shares authorized at May 31, 2020 and 2019; 126,521,416 and 125,839,095 shares issued and outstanding at May 31, 2020 and 2019, respectively	12,653	12,585
Additional paid-in capital	71,196,814	70,758,025
Common stock subscribed	241,109	455,095
Accumulated deficit	(76,846,124)	(46,188,151)
Total stockholder's equity (deficit)	(5,395,548)	25,037,554
Total liabilities and stockholders' equity (deficit)	$ 15,267,301	$ 46,503,317

See notes to consolidated financial statements.

CLS Holdings USA, Inc.
Consolidated Statements of Operations

	For the Year Ended May 31, 2020	For the Year Ended May 31, 2019
Revenue	$ 11,917,629	$ 8,459,048
Cost of goods sold	5,959,286	4,836,166
Gross margin	5,958,343	3,622,882
Selling, general and administrative expenses	8,776,876	26,472,057
Impairment of goodwill	25,185,003	-
Total operating expenses	33,961,879	26,472,057
Operating loss	(28,003,536)	(22,849,175)
Other (income) expense:		
Interest expense, net	2,941,131	4,447,993
Gain on settlement of liabilities	(275,000)	-
Gain on modification of operating leases	(28,511)	-
Loss on disposal of assets	16,817	-
Loss on revaluation of contingent liability	-	321,889
Total other expense	2,654,437	4,769,882
Loss before income taxes	(30,657,973)	(27,619,057)
Income tax expense	-	-
Net loss	$ (30,657,973)	$ (27,619,057)
Net loss per share - basic	$ (0.24)	$ (0.27)
Net loss per share - diluted	$ (0.24)	$ (0.27)
Weighted average shares outstanding - basic	126,390,105	102,869,612
Weighted average shares outstanding - diluted	126,390,105	102,869,612

See notes to consolidated financial statements.

CLS Holdings USA, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

	Common Stock		Additional Paid-In	Stock	Accumulated	
	Amount	Value	Capital	Payable	Deficit	Total
Balance, May 31, 2018	50,128,972	$ 5,013	$ 17,628,717	$ 307,584	$ (18,569,094)	$ (627,780)
Common stock issued for conversion of debt	3,697,511	370	1,295,320	-	-	1,295,690
Common stock issued in connection with Oasis acquisition	22,058,823	2,206	15,438,970	-	-	15,441,176
Common stock issued to consultant	731,250	73	515,240	(25,313)	-	490,000
Common stock issued to officer	625,000	62	281,438	(230,820)	-	50,680
Common stock to be issued to officer	-	-	-	403,644	-	403,644
Common stock issued for cash	14,375,000	1,438	5,748,562	-	-	5,750,000
Special Warrants issued for cash	-	-	9,785,978	-	-	9,785,978
Cashless exercise of warrant	148,951	15	(15)	-	-	-
Warrant issued due to penalty	-	-	941,972	-	-	941,972
Warrants issued as compensation for offering	-	-	2,369,830	-	-	2,369,830
Units issued as compensation for offering	559,750	56	557,279			557,335
Warrants issued to placement agent	-	-	1,413,300	-	-	1,413,300
Special warrant issued due to penalty	-	-	7,142,550	-	-	7,142,550
Common stock issued for exercise of special warrants	33,463,838	3,347	(3,347)	-	-	-
Common stock shares issued for settlement	50,000	5	47,495	-	-	47,500
Foreign currency transaction loss on equity offering	-	-	403,588	-	-	403,588
Discount on notes from beneficial conversion feature	-	-	5,888,707	-	-	5,888,707
Reclassification of derivative upon adoption of ASU 2017-11	-	-	1,265,751	-	-	1,265,751
Derivative valuation of reset event	-	-	35,883	-	-	35,883
Imputed interest	-	-	807	-	-	807
Net loss for the year ended May 31, 2019	-	-	-	-	(27,619,057)	(27,619,057)
Balance, May 31, 2019	125,839,095	$ 12,585	$ 70,758,025	$ 455,095	$ (46,188,151)	$ 25,037,554
Common stock issued to officer	550,000	55	390,445	(390,500)	-	-
Common stock issued to consultant	100,000	10	22,490	(22,500)	-	-
Common stock issued for conversion of debt	32,321	3	25,854	-	-	25,857
Common stock to be issued to officer	-	-	-	154,014	-	154,014
Common stock to be issued to consultant	-	-	-	45,000	-	45,000
Net loss for the year ended May 31, 2020	-	-	-	-	(30,657,973)	(30,657,973)
Balance, May 31, 2020	126,521,416	$ 12,653	$ 71,196,814	$ 241,109	$ (76,846,124)	$ (5,395,548)

See notes to consolidated financial statements.

CLS Holdings USA, Inc.
Consolidated Statements of Cash Flows

	For the Year Ended May 31, 2020	For the Year Ended May 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (30,657,973)	$ (27,619,057)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on contingent liabilities	(275,000)	-
Gain on modification of leases	(28,511)	-
Loss on disposal of assets	16,817	-
Impairment of goodwill	25,185,003	-
Imputed interest	-	807
Bad debt expense	108,392	-
Fair value of shares issued to consultants	45,000	490,000
Warrants issued to placement agent	-	3,783,130
Revaluation of contingent liability	-	321,889
Amortization of debt discounts	1,647,664	3,576,161
Warrants and Special Warrants issued due to penalty	-	8,084,522
Units issued to placement agent		557,335
Non-cash offering costs of equity financing	-	403,588
Fair value of shares vested by officers	154,014	454,324
Depreciation and amortization expense	449,192	288,351
Expense from derivative triggering event	-	12,659
Fair value of shares issued in settlement	-	47,500
Changes in assets and liabilities:		
Accounts receivable	(106,230)	(128,134)
Prepaid expenses and other current assets	(122,936)	(292,769)
Inventory	171,591	(340,880)
Interest receivable	(224,517)	(178,258)
Right of use asset	1,300,392	-
Accounts payable and accrued expenses	(74,319)	(484,609)
Accrued compensation	-	(120,417)
Accrued interest, related party	-	(362)
Deferred rent	-	1,667
Accrued interest	1,300,715	995,941
Due to related parties	-	(17,930)
Contingent liability	(850,000)	
Operating lease liability	(1,202,259)	-
Net cash used in operating activities	(3,162,965)	(10,164,542)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to purchase property, plant and equipment	(1,923,338)	(1,037,262)
Payments to purchase intangible assets	(22,030)	-
Loan made to borrower under note receivable	(175,000)	(5,150,000)
Proceeds from collection of note receivable	1,682,278	-
Payment for investment in Alternative Solutions, net of cash received of $14,612	-	(5,982,710)
Net cash used in investing activities	(438,090)	(12,169,972)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes payable	-	18,369,000
Principal payments on notes payable	-	(1,060,000)
Principal payments on related party notes payable	-	(137)
Principal payments on convertible notes payable	-	(37,500)
Principal payments on notes payable	(3,999,168)	-
Proceeds from sale of equity	-	15,535,978
Net cash (used in) provided by financing activities	(3,999,168)	32,807,341
Net (decrease) increase in cash and cash equivalents	(7,600,223)	10,472,827
Cash and cash equivalents at beginning of period	10,525,791	52,964
Cash and cash equivalents at end of period	$ 2,925,568	$ 10,525,791
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 307,612	$ 8,964
Income taxes paid	$ -	$ -
Common stock issued for services, previously accrued	$ -	$ 17,500

Accrued interest capitalized to principal of notes payable	$ -	$ 491,230
Convertible note issued for unpaid accrued salary	$ -	$ 75,000
Beneficial conversion feature on convertible notes	$ -	$ 5,888,707
Note payable exchanged for common stock	$ -	$ 1,295,690
Charge to paid-in capital for par value of shares issued in cashless exercise of warrants	$ -	$ 3,362
Reclassify derivative liability to paid-in capital upon adoption of ASU 2017-11	$ -	$ 1,265,751
Adoption of lease standard ASU 2016-02	$ 2,675,310	$ -
Capitalized interest on convertible debentures	$ 1,553,082	$ -
Reclassification of deposit to fixed assets	$ 281,966	$ -
Shares issued for conversion of notes payable	$ 25,857	$ -
Shares issued for services from stock payable	$ -	$ 25,313
Capitalized interest on note receivable	$ 399,453	$ -

See notes to 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 shares of the Company's common stock were issued to CLS Labs in exchange for the 10,000,000 shares that it owned by virtue of the above-referenced purchase from Larry Adelt.

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

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

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

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

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company ("CLS Massachusetts"), and In Good Health, Inc., a Massachusetts corporation ("IGH"), entered into an Option Agreement (the "IGH Option Agreement"). Under the terms of the IGH Option Agreement, CLS Massachusetts has an exclusive option to acquire all of the outstanding capital stock of IGH (the "IGH Option") during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that is 60 days after such date. If CLS Massachusetts exercises the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH will enter into a merger agreement (the form of which has been agreed to by the parties) (the "IGH Merger Agreement"). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts will pay a purchase price of $47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: $35 million in cash, $7.5 million in the form of a five-year promissory note, and $5 million in the form of restricted common stock of the Company, plus $2.5 million as consideration for a non-competition agreement with IGH's President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement have entered into agreements pursuant to which such stockholders have, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH, in the principal amount of $5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan is evidenced by a secured promissory note of IGH, which bears interest at the rate of 6% per annum and matures on October 31, 2021. To secure the obligations of IGH to the Company under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH. If the Company does not exercise the Option on or prior to the date that is 30 days following the end of the option period, the loan amount will be reduced to $2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay closing until January 2020. By letter agreement dated January 31, 2020, the Company, CLS Massachusetts and IGH extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option. By letter dated February 26, 2020, the Company informed IGH that as a result of its breaches of the IGH Option, which remained uncured, an event of default had occurred under the IGH Note. The Company advised IGH that it was electing to cause the IGH Note to bear interest at the default rate of 15% per annum effective February 26, 2020 and to accelerate all amounts due under the Note. This dispute, including whether IGH breached the IGH Option and whether CLS is entitled to collect default interest, is now in litigation.

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

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

On August 26, 2019, the Company and CannAssist entered into an agreement to amend the CannAssist Note. Pursuant to the amendment, there will be no additional advances under the CannAssist Note beyond the $150,000 advanced on February 4, 2019, and the $175,000 advanced on June 24, 2019. In addition, the CannAssist Note shall become due and payable in full on or before February 28, 2020. See note 16. On December 23, 2019, the Company received payment in full on the CannAssist loan in the amount of $342,567, which is made up of $325,000 of principal and $17,567 of interest. At May 31, 2020, the Company was owed $0 pursuant to the CannAssist Note.

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

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 $76,846,124 as of May 31, 2020. Further losses are anticipated in the development of the Company's business raising substantial doubt about the Company's ability to continue as a going concern. The ability to continue as a going concern is dependent upon the Company generating profitable operations in the future and/or obtaining the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management intends to finance operating costs over the next twelve months with the proceeds from the sale of securities, and/or revenues from operations. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 – 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 direct and indirect wholly owned operating subsidiaries, CLS Nevada, Inc., ("CLS Nevada"), CLS Labs, Inc. ("CLS Labs"), CLS Labs Colorado, Inc. ("CLS Colorado"), CLS Massachusetts, Inc. ("CLS Massachusetts"), and Alternative Solutions, LLC ("Alternative Solutions"). Alternative Solutions is the sole owner of the following three entities (collectively, the "Oasis LLCs"): Serenity Wellness Center, LLC ("Serenity Wellness Center"); Serenity Wellness Products, LLC ("Serenity Wellness Products"); and Serenity Wellness Growers, LLC ("Serenity Wellness Growers"). All material intercompany transactions have been eliminated upon consolidation of these entities.

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.

Reclassification

Certain amounts in the prior period have been reclassified to conform to the current period presentation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents. The Company had cash and cash equivalents of $2,925,568 and $10,525,791 as of May 31, 2020 and 2019.

Allowance for Doubtful Accounts

The Company generates the majority of its revenues and corresponding accounts receivable from the sale of cannabis, and cannabis related products. The Company evaluates the collectability of its accounts receivable considering a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations to it, the Company records a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount it reasonably believe will be collected. For all other customers, the Company recognizes reserves for bad debts based on past write-off experience and the length of time the receivables are past due. The Company had $108,392 and $0 bad debts expense during the years ended May 31, 2020 and 2019, respectively.

Inventory

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

Property, Plant, and Equipment

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

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

Repairs and maintenance expenditures are charged to operations as incurred. Major improvements and replacements, which extend the useful life of an asset, are capitalized and depreciated over the remaining estimated useful life of the asset. When assets are retired or sold, the cost and related accumulated depreciation are eliminated and any resulting gain or loss is reflected in operations.

Long-Lived Assets

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

Comprehensive Income

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

Concentrations of Credit Risk

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

Advertising and Marketing Costs

All costs associated with advertising and promoting products are expensed as incurred. Total recognized advertising and marketing expenses were $836,000 and $1,655,374 for the years ended May 31, 2020 and 2019, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $0 for the years ended May 31, 2020 and 2019.

Fair Value of Financial Instruments

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

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

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

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

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

Derivative Financial Instruments

Derivatives are recorded on the condensed consolidated balance sheets at fair value. The conversion features of the convertible notes are embedded derivatives and are separately valued and accounted for on the consolidated balance sheets with changes in fair value recognized during each period of change as a separate component of other income/expense. Fair values for exchange-traded securities and derivatives are based on quoted market prices. The pricing model the Company uses for determining the fair value of its derivatives is the Lattice Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates and stock price volatilities. Selection of these inputs involves management's judgment and may impact net income (see note 20).

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

The following assumptions were used for the valuation of the derivative liability related to the convertible notes that contain a derivative component:

There were no derivative liabilities on the Company's balance sheet during the year ended May 31, 2020 which required valuation.

For the year ended May 31, 2019

- That the quoted market price of the common stock, which decreased from $0.6865 as of June 1, 2018 to $0.2999 as of May 31, 2019, would fluctuate with the Company's projected volatility;

- That the conversion price of the YAN II PN Convertible Notes would be equal to $0.40 with a full reset feature, and upon default, 75% of the lowest Volume Weighted Average Price (the "VWAP") in the 15 consecutive trading days ending on the trading day that is immediately prior to the applicable conversion date;

- That the new convertible notes issued during this period with full resets would be initially issued with conversion prices of $0.40, which were not reset as a result of subsequent transactions;

- That an event of default at 24% or 15% interest rate would occur 0% of the time, increasing 1.00% per month to a maximum of 25%, 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 remaining term for each convertible note. The projected volatility was in the range of 97.4% to 242.8% during the year ended May 31, 2019;

- That the Company would redeem the convertible notes, projected initially at 0% of the time and increasing monthly by 1.00% to a maximum of 10.0%;

- 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 2017 Convertible Notes was eligible for sale in compliance with securities laws and the Company was not in default;

- 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 YAN II PN Convertible Notes.

Revenue Recognition

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

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

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

Effective June 1, 2018, the Company adopted ASC 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from commercial sales of products and licensing agreements by applying the following steps: (1) identifying the contract with a customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to each performance obligation in the contract; and (5) recognizing revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of the service has been rendered to a customer or delivery has occurred; (3) the amount of fee to be paid by a customer is fixed and determinable; and (4) the collectability of the fee is reasonably assured. There was no impact on the Company's financial statements as a result of adopting Topic 606 for the years ended May 31, 2020 and 2019.

Disaggregation of Revenue

The following table represents a disaggregation of revenue for the years ended May 31, 2020 and 2019:

	2020	2019
Cannabis Dispensary	$ 9,365,105	$ 5,492,312
Cannabis Production	2,552,524	2,966,736
	$ 11,917,629	$ 8,459,048

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, 2020 and 2019, the Company excluded from the calculation of fully diluted shares outstanding the following shares because the result would have been anti-dilutive: At May 31, 2020 a total of 88,130,526 shares (54,835,145 issuable upon the exercise of warrants; 7,676,974 issuable upon the exercise of unit warrants; 25,131,739 issuable upon the conversion of convertible notes payable and accrued interest; and 486,668 in stock to be issued). At May 31, 2019, the Company excluded from the calculation of fully diluted shares outstanding a total of 86,439,117 shares (54,818,985 issuable upon the exercise of warrants; 7,676,974 issuable upon the exercise of unit warrants; 23,261,393 issuable upon the conversion of convertible notes payable and accrued interest; and 681,764 in stock to be issued).

The Company uses the treasury stock method to calculate the impact of outstanding stock options and warrants. Stock options and warrants for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on earnings per common share and, accordingly, are excluded from the calculation.

A net loss causes all outstanding stock options and warrants to be antidilutive. As a result, the basic and dilutive losses per common share are the same for the years ended May 31, 2020 and 2019.

Income Taxes

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

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

Commitments and Contingencies

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

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

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

Recent Accounting Pronouncements

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

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

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230). The update addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update is effective for reporting periods beginning after December 15, 2017, including interim periods within the reporting period. Adoption of ASU 2016-15 did not have a material effect on our financial statements.

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

Effective June 1, 2018, the Company adopted ASC 606 — Revenue from Contracts with Customers. Under ASC 606, the Company recognizes revenue from the commercial sales of products and licensing agreements by applying the following steps: (1) identify the contract with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when each performance obligation is satisfied. For the comparative periods, revenue has not been adjusted and continues to be reported under ASC 605 — Revenue Recognition. Under ASC 605, revenue is recognized when the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) the performance of a 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 the Company's financial statements as a result of adopting ASC 606.

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

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

Those amendments do not have an accounting effect. The amendments in Part I of this update became effective the Company on June 1, 2019. The adoption of ASU No. 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815) did not have a material effect on the Company's financial statements.

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

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 – ACQUISITION OF ALTERNATIVE SOLUTIONS

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

Pursuant to the Acquisition Agreement, the Company paid a non-refundable deposit of $250,000 upon signing, which was followed by an additional payment of $1,800,000 paid in February 2018, for an initial 10% of each of the Oasis LLCs. At that time, the Company applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received. On June 27, 2018, the Company made the payments to indirectly acquire the remaining 90% of the Oasis LLCs, which were equal to cash in the amount of $5,995,543, a $4.0 million promissory note due in December 2019 (see note 16), (the "Oasis Note"), and 22,058,823 shares of its common stock (see note 18), (the "Purchase Price Shares") (collectively, the "Closing Consideration"). The cash payment of $5,995,543 was less than the $6,200,000 payment originally contemplated because the Company assumed an additional $204,457 of liabilities. The Company used the proceeds of a Canadian private securities offering to fund the cash portion of the Closing Consideration (see note 18). The Company then applied for regulatory approval to own the additional 90% in membership interests in the Oasis LLCs, which it received on December 12, 2018. On August 14, 2019, the Company made a prepayment in the amount of $2,500,000, which, along with certain legal fees and other costs in the aggregate amount of $138,784, was applied to the amount due under the $4.0 million promissory note. The Company repaid the balance due under the Oasis Note on December 31, 2019.

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

A claim was made that Oasis owed certain amounts to a consultant at the acquisition date; Oasis disputed this claim. This claim was accrued on the Company's balance sheet as of May 31, 2019, and was resolved during the year ended May 31, 2020.

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

The full amount of the bonus payment was earned, and on May 27, 2020, the Company made a payment in the amount of $850,000 to the sellers. The Company deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The Oasis LLCs have not yet received the demand from the State of Nevada with the precise amount due and the amount escrowed is the Company's best estimate of the pre-closing tax liability. If the ultimate tax liability is less than $150,000, the balance of the escrowed amount will be paid to sellers. As of May 31, 2020, the $150,000 remains a liability on the Company's balance sheet and $150,0000 in recorded in an escrow account in the asset section of the Company's balance sheet.

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

Initial purchase price	$	2,050,000
Cash paid in connection with transaction		5,995,543
Note payable		3,810,820
Contingent consideration		678,111
Common stock		15,441,176
Total purchase price	$	27,975,650
Net tangible assets	$	595,151
Intellectual property		319,600
License & customer relationships		990,000
Tradenames		301,000
Non-compete agreements		27,000
Goodwill		25,742,899
Total purchase price	$	27,975,650

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

The Company recognized revenue from the Oasis LLCs in the amount of $11,917,629 and $8,459,048 for the years ended May 31, 2020 and 2019, respectively.

Pro forma results

The following table sets forth the unaudited pro forma results of the Company as if the acquisition of the Oasis LLCs was effective on June 1, 2018. 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, 2019
		(unaudited)
Revenues	$	9,759,956
Net loss	$	(26,671,841)
Basic net loss per share	$	(0.26)
Diluted net loss per share	$	(0.26)
Weighted average shares - basic		102,869,612
Weighted average shares - diluted		102,869,612

NOTE 5 – JOINT VENTURE AND OPTIONS TRANSACTION

In Good Health

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

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

On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH (the "IGH Loan"), in the principal amount of $5,000,000 (the "IGH Loan Amount"), subject to the terms and conditions set forth in that certain Loan Agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender (the "IGH Loan Agreement") (see note 9). The IGH Loan is evidenced by a secured promissory note of IGH (the "IGH Note"), which bears interest at the rate of 6% per annum and matures on October 31, 2021. The Company recorded interest income in the amount of $296,250 and $174,247 on the IGH Loan during the years ended May 31, 2020 and 2019, respectively. On March 1, 2020, the Company capitalized interest in the amount of $399,453 into the principal amount due. During the year ended May 31, 2020, the Company also received payments on this note in the amount of $1,425,000, which is made up of $1,357,278 of principal and $67,722 of interest. As of May 31, 2020, the principal balance of the IGH Note was $4,042,175 and the balance of interest receivable was $3,322.

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

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

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

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

CannAssist

On January 29, 2019, the Company made a line of credit loan to CannAssist in the principal amount of up to $500,000, subject to the terms and conditions set forth in the CannAssist Loan Agreement. Any draws on the line of credit in excess of $150,000 will only be made in the sole discretion of the Company. The loan is evidenced by the CannAssist Note, which bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. On June 24, 2019, the Company advanced the sum of $175,000 to CannAssist, increasing the balance due to the Company under the CannAssist Note to $325,000. The Company recorded interest income in the amount of $14,673 and $4,011 on the loan during the years ended May 31, 2020 and 2019, respectively.

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

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

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

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

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable was $161,409 and $163,571 at May 31, 2020 and 2019, respectively. The Company had bad debt expense of $108,392 during the year ended May 31, 2020, including $101,512 in connection with a receivable from a credit card company. The Company had bad debt expense of $0 during the prior period.

NOTE 7 – PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consisted of the following at May 31, 2020 and 2019:

	May 31, 2020	May 31, 2019
Deposits	$ 2,315	211,493
Prepaid expenses	231,777	178,920
Total	$ 234,092	$ 390,413

Deposits consist of amounts paid in advance for the acquisition of property and equipment. Prepaid expenses consist primarily of annual license fees charged by the State of Nevada; these fees are paid in advance, and amortized over the one year term of the licenses.

During the year ended May 31, 2020, the Company applied deposits in the amount of $281,966 to the acquisition of fixed assets.

NOTE 8 – INVENTORY

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

	May 31, 2020	May 31, 2019
Raw materials	$ 134,697	$ 323,635
Finished goods	440,545	423,198
Total	$ 575,242	$ 746,833

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 9 – NOTES RECEIVABLE

PRH Note Receivable

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

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

IGH Note Receivable

On October 31, 2018, in connection with an option to purchase transaction (see note 5), the Company loaned $5,000,000 pursuant to the IGH Note to IGH; on November 6, 2018, IGH converted to a for-profit corporation. The IGH Note bears interest at the rate of 6% per annum. On March 1, 2020 (the "Initial Payment Date"), all accrued interest shall be added to the outstanding principal due hereunder and such amount shall be payable in eight equal quarterly installments, commencing on the Initial Payment Date, together with interest accruing after the Initial Payment Date. The IGH Note shall mature and all outstanding principal, accrued interest and any other amounts due hereunder, shall become due and payable in full on the third anniversary of the IGH Note. The IGH Note was issued in connection with a loan agreement and security agreement between the Company and IGH, and the IGH Option Agreement between the Company and IGH, among others, in both cases dated as of October 31, 2018 and the other IGH Loan Documents, and is secured by the collateral described in the IGH Loan Documents and by such other collateral as may in the future be granted to the Company to secure the IGH Note. During the years ended May 31, 2020 and 2019, the Company recorded interest income in the amounts of $296,250 and $174,247, respectively, in connection with the IGH Note. During the years ended May 31, 2020 and 2019, the Company capitalized interest in the amount of $399,453 and $0, respectively, on the IGH Note.

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

During the year ended May 31, 2020, the Company received payments on the IGH Note in the amount of $1,425,000. The Company applied these payments as follows; $1,357,278 as a repayment of principal and $67,722 as a repayment of accrued interest. As a result, at May 31, 2020, principal in the amount of $4,042,175 and interest receivable in the amount of $3,322 due under the IGH Note were classified as current assets on the Company's balance sheet.

CannAssist Note Receivable

On January 29, 2019, the Company made a line of credit loan to CannAssist pursuant to the CannAssist Note, in the principal amount of up to $500,000. The loan bears interest at the rate of 8% per annum and is personally guaranteed by the two equity owners of CannAssist. Payments on the loan were to commence on July 1, 2019 and the CannAssist Note was to mature on December 1, 2019. On August 26, 2019, the Company and CannAssist amended the CannAssist Note. Pursuant to the amendment, among other things, the CannAssist Note shall become due and payable in full on or before February 28, 2020. During the years ended May 31, 2020 and 2019, the Company recorded interest income in the amount of $14,673 and $4,011 on the CannAssist Note. On December 23, 2019, the Company received payment in full on the CannAssist loan in the amount of $342,567, which comprises $325,000 of principal and $17,567 of interest. At May 31, 2020, the principal amount of $0 and interest receivable in the amount of $0 due under the CannAssist Note were classified as current assets on the Company's balance sheet.

NOTE 10 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at May 31, 2020 and 2019:

	May 31, 2020	May 31, 2019
Office equipment	$ 94,887	$ 53,152
Furniture & fixtures	144,025	140,701
Machinery & equipment	1,741,830	969,196
Leasehold improvements	2,662,967	1,293,660
Less: accumulated depreciation	(868,200)	(546,408)
Property and equipment, net	$ 3,775,509	$ 1,910,301

The Company also made payments in the amount of $1,923,338 and $1,037,262 for property and equipment during the years ended May 31, 2020 and 2019, respectively; the Company also reclassified from deposits to property, plant and equipment the amounts of $281,966 and $0 during the years ended May 31, 2020 and 2019, respectively. During the year ended May 31, 2020, the Company disposed of fixed assets a net book value of $16,817 and recorded a loss on disposal of fixed assets in that amount; there was no such comparable transaction during the prior period. During the year ended May 31, 2019, the Company also acquired property, plant, and equipment with an aggregate fair value of $933,142 with the acquisition of Alternative Solutions. See note 4.

Depreciation expense totaled $323,279 and $173,277 for the years ended May 31, 2020 and 2019, respectively.

NOTE 11 – RIGHT TO USE ASSETS AND LIABILITIES – OPERATING LEASES

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

The Company's lease expense for the year ended May 31, 2020 was entirely comprised of operating leases and amounted to $420,953. The Company's right of use ("ROU") asset amortization for the year ended May 31, 2020 was $361,404. The difference between the lease expense and the associated ROU asset amortization consists of interest.

The Company has recorded total right to use assets of $2,703,821 and liabilities in the amount of $2,675,310 through May 31, 2020, resulting in a gain in the amount of $28,511. During the year ended May 31, 2020, the Company entered into agreements to amend certain of its operating leases; the lease of the dispensary and administrative offices at 1800 Industrial Road were extended from June 30, 2023 to February 28, 2030, and the lease of the offices at 1718 Industrial Road was extended from August 31, 2020 to August 31, 2022.

Right to use assets – operating leases are summarized below:

		May 31, 2020
Amount at inception of leases	$	2,703,821
Amount amortized		(1,300,392)
Balance – May 31, 2020	$	1,403,429

Operating lease liabilities are summarized below:

Amount at inception of leases	$	2,675,310
Amount amortized		(1,202,259)
Balance – May 31, 2020	$	1,473,051

		May 31, 2020
Warehouses and offices	$	1,473,051
Lease liability	$	1,473,051
Less: current portion		(336,900)
Lease liability, non-current	$	1,136,151

Maturity analysis under these lease agreements is as follows:

Twelve months ended May 31, 2021	$	440,022
Twelve months ended May 31, 2022		184,172
Twelve months ended May 31, 2023		168,886
Twelve months ended May 31, 2024		169,617
Twelve months ended May 31, 2025		174,489
Thereafter		899,441
Total	$	2,036,627
Less: Present value discount		(563,576)
Lease liability	$	1,473,051

NOTE 12 – INTANGIBLE ASSETS

Intangible assets consisted of the following at May 31, 2020 and 2019:

	May 31, 2020		
	Gross	Accumulated Amortization	Net
Intellectual Property	$ 319,600	$ (61,257)	$ 258,343
License & Customer Relations	990,000	(94,875)	895,125
Tradenames - Trademarks	301,000	(57,692)	243,308
Non-compete Agreements	27,000	(25,882)	1,118
Domain Names	25,993	(2,683)	23,310
Total	$ 1,663,593	$ (242,389)	$ 1,421,204

	May 31, 2019		
	Gross	Accumulated Amortization	Net
Intellectual Property	$ 319,600	$ (29,297)	$ 290,303
License & Customer Relations	990,000	(45,375)	944,625
Tradenames - Trademarks	301,000	(27,592)	273,408
Non-compete Agreements	27,000	(12,378)	14,622
Domain Names	3,963	(1,834)	2,129
Total	$ 1,641,563	$ (116,476)	$ 1,525,087

Total amortization expense charged to operations for the years ended May 31, 2020 and 2019 was $125,913 and $115,074, respectively.

Amount to be amortized during the twelve months ended May 31,	
2021	$ 113,080
2022	111,962
2023	111,962
2024	111,962
2025	111,962
Thereafter	860,276
	$ 1,421,204

NOTE 13 – GOODWILL

The Company recorded goodwill in the amount of $25,742,899 in connection with the acquisition of Alternative Solutions on June 27, 2018 (see note 4).

Goodwill Impairment Test

The Company assessed its intangible assets as of May 31, 2020 for purposes of determining if an impairment exists as set forth in ASC 350 – Intangibles – Goodwill and Other and ASC 360 – Property Plant and Equipment. Pursuant to ASC 360, the Company recorded an impairment of goodwill in the amount of $25,185,003 based upon the difference between the carrying value of $25,742,899 and fair value $557,896. Fair value was based upon the price of the Company's common stock at May 31, 2020 of $0.06 per share. (see note 12). At May 31, 2020, the net amount of goodwill on the Company's balance sheet was $557,896

NOTE 14 – OTHER ASSETS

Other assets included the following as of May 31, 2020 and May 31, 2019:

	May 31 2020	May 31, 2019
Security deposits	167,455	167,455
	$ 167,455	$ 167,455

NOTE 15 – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at May 31, 2020 and 2019:

	May 31, 2020	May 31, 2019
Trade accounts payable	$ 591,060	$ 510,210
Accrued payroll and payroll taxes	212,361	230,119
Accrued liabilities	369,462	625,399
Deferred rent liability	-	151,399
Total	$ 1,172,883	$ 1,517,127

NOTE 16 – NOTES PAYABLE AND CONVERTIBLE NOTES PAYABLE

Notes Payable

	May 31, 2020	May 31, 2019
The Company issued a secured note payable to Serenity Wellness Enterprises, LLC, as nominee ("Oasis Note") dated June 27, 2018 in the principal amount of $4,000,000 and bearing interest at a rate of 6% per annum pursuant to the Membership Interest Purchase Agreement with Alternative Solutions. The note is due on December 4, 2019, but may be prepaid at any time without penalty. The Oasis Note is secured by all of the membership interests in Alternative Solutions and the Oasis LLCs and by the assets of the Oasis LLCs. The Company recognized an original issue discount of $189,180 on the Oasis Note. During the year ended May 31, 2020 and 2019, $67,384 and $121,796, respectively, of this discount was charged to operations. On August 14, 2019, the Company made a prepayment in the amount of $2,500,000, which was applied to the amount due under the Oasis Note; in addition, principal due under the Oasis note was further reduced by $133,389 for legal fees and $5,395 for other costs incurred by the Company in connection with a settlement agreement (see note 19). During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $82,037 and $225,333, respectively, on the Oasis Note. On December 31, 2019, the Company repaid the remaining amount of the note, $1,671,296, which comprised $1,363,925 of principal and $370,370 of interest.	-	4,000,000
Total – Notes Payable	$ -	$ 4,000,000
Less: Discount	-	(67,384)
Notes Payable, Net of Discounts	$ -	$ 3,932,616
Current portion	$ -	$ 3,932,616
Long term portion	$ -	$ -

Convertible Notes Payable

	May 31, 2020	May 31, 2019
Convertible debenture in the principal amount of $4,000,000 (the "U.S. Convertible Debenture 1") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 1. The U.S. Convertible Debenture 1 matures on a date that is three years following issuance. The U.S. Convertible Debenture 1 is convertible into units (the "Convertible Debenture Units") at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 1, the conversion price of Convertible Debenture 1 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 1 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 1 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 1 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $3,254,896 on the U.S. Convertible Debenture 1. During the years ended May 31, 2020 and 2019, $1,084,965 and $632,896 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $344,962 and $191,363 on the U.S. Convertible Debenture 1, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $370,057 and $134,400 from accrued interest to principal of the U.S. Convertible Debenture 1, respectively.	4,504,457	4,134,400
Convertible debenture in the principal amount of $1,000,000 (the "U.S. Convertible Debenture 2") dated October 31, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 2. The U.S. Convertible Debenture 2 matures on a date that is three years following issuance. The U.S. Convertible Debenture 2 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 2, the conversion price of Convertible Debenture 2 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 2 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 2 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 2 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $813,724 on the U.S. Convertible Debenture 2. During the year ended May 31, 2020 and 2019, $271,241 and $158,224 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $86,240 and $47,841 on the U.S. Convertible Debenture 2, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $92,514 and $33,600 from accrued interest to principal of the U.S. Convertible Debenture 2, respectively.	1,126,114	1,033,600

	May 31, 2020	May 31, 2019
Convertible debenture in the principal amount of $100,000 (the "U.S. Convertible Debenture 3") dated October 24, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 3. The U.S. Convertible Debenture 3 matures on a date that is three years following issuance. The U.S. Convertible Debenture 3 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 3 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 3, the conversion price of Convertible Debenture 3 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 3 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 3 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 3 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $75,415 on the U.S. Convertible Debenture 3. During the years ended May 31, 2020 and 2019, $25,138 and $14,664 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $8,638 and $4,945 on the U.S. Convertible Debenture 3, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $9,117 and $3,496 from accrued interest to principal of the U.S. Convertible Debenture 3, respectively.	112,613	103,496
Convertible debenture in the principal amount of $532,000 (the "U.S. Convertible Debenture 4") dated October 25, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 4. The U.S. Convertible Debenture 4 matures on a date that is three years following issuance. The U.S. Convertible Debenture 4 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 4 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 4, the conversion price of Convertible Debenture 4 will be reduced to such issuance price, and the exercise price of the warrant issuable in connection with Convertible Debenture 4 will be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 4 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 4 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $416,653 on the U.S. Convertible Debenture 4. During the years ended May 31, 2020 and 2019, $138,884 and $81,016 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $45,942 and $26,185 on the U.S. Convertible Debenture 4, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $48,623 and $18,478 from accrued interest to principal of the U.S. Convertible Debenture 4, respectively.	599,101	550,478

	May 31, 2020	May 31, 2019
Convertible debenture in the principal amount of $150,000 (the "U.S. Convertible Debenture 5") dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 5. The U.S. Convertible Debenture 5 matures on a date that is three years following issuance. The U.S. Convertible Debenture 5 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 5 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 5 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $120,100 on the U.S. Convertible Debenture 5. During the years ended May 31, 2020 and 2019, $40,033 and $23,353 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $12,950 and $7,348 on the U.S. Convertible Debenture 5, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $13,743 and $5,176 from accrued interest to principal of the U.S. Convertible Debenture 5, respectively.	168,919	155,176
Convertible debenture payable in the principal amount of $75,000 (the "U.S. Convertible Debenture 6") dated October 26, 2018, which bears interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the U.S. Convertible Debenture 6. The U.S. Convertible Debenture 6 matures on a date that is three years following issuance. The U.S. Convertible Debenture 6 is convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The U.S. Convertible Debenture 6 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The U.S. Convertible Debenture 6 is an unsecured obligation of the Company and ranks *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of $60,049 on the U.S. Convertible Debenture 6. During the years ended May 31, 2020 and 2019, $20,019 and $11,674 of this discount was charged to operations, respectively. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $6,475 and $3,674 on the U.S. Convertible Debenture 6, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $6,871 and $2,588 from accrued interest to principal of the U.S. Convertible Debenture 6, respectively.	84,459	77,588

	May 31, 2020	May 31, 2019
Convertible debentures payable in the aggregate principal amount of $12,012,000 (the "Canaccord Debentures") dated December 12, 2018, which bear interest, payable quarterly, at a rate of 8% per annum, with interest during the first eighteen months following issuance being payable by increasing the then-outstanding principal amount of the Canaccord Debentures. The Canaccord Debentures mature on a date that is three years following issuance. The Canaccord Debentures are convertible into Convertible Debenture Units at a conversion price of $0.80 per Convertible Debenture Unit. Each Convertible Debenture Unit consists of (i) one share of the Company's common stock, and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at a price of $1.10. The value of the warrants will be recorded when the issuance becomes probable. The Canaccord Debentures have other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a "Change in Control" of the Company. The Canaccord Debentures are unsecured obligations of the Company and rank *pari passu* in right of payment of principal and interest with all other unsecured obligations of the Company. During the three months ended November 30, 2019, in two separate transactions, principal in the aggregate amount of $25,857 was converted into an aggregate of 32,321 shares of the Company's common stock, and warrants to purchase 16,160 shares of common stock. There were no gains or losses recorded on these conversions because they were done in accordance with the terms of the original agreement. No discount was recorded for the fair value of the warrants issued. Because the market price of the Company's common stock was less than the conversion price on the date of issuance of the Canaccord Debentures, a discount was not recorded on the Canaccord Debentures. During the years ended May 31, 2020 and 2019, the Company accrued interest in the amounts of $1,025,549 and $458,759 on the Canaccord Debentures, respectively. Also, during the years ended May 31, 2020 and 2019, the Company transferred the amounts of $984,300 and $291,249 from accrued interest to principal of the Canaccord Debentures, respectively.	13,287,549	12,305,492
Total - Convertible Notes Payable	$ 19,883,212	$ 18,360,230
Less: Discount	(2,238,730)	(3,819,010)
Convertible Notes Payable, Net of Discounts	$ 17,644,482	$ 14,541,220
Total - Convertible Notes Payable, Net of Discounts, Current Portion	$ -	$ -
Total - Convertible Notes Payable, Net of Discounts, Long-term Portion	$ 17,644,482	$ 14,541,220
Discounts on notes payable amortized to interest expense – years ended May 31, 2020 and 2019, respectively	$ 1,580,280	$ 921,827

Aggregate maturities of notes payable and convertible notes payable as of May 31, 2020 are as follows:

For the twelve months ended May 31,

2021	$ -
2022	19,883,212
2023	-
2024	-
2025	-
Thereafter	-
Total	$ 19,883,212

Beneficial Conversion Features

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

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

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

NOTE 17 – CONTINGENT LIABILITY

The terms of the Company's acquisition of Alternative Solutions, include a payment of $1,000,000 contingent upon the Oasis LLCs achieving certain revenue targets. (see note 4). The fair value of this contingent consideration at the time of the Acquisition Agreement was $678,111 as determined by the Company's outside valuation consultants. Management reviewed the value of the contingent consideration, and concluded that, due to the increased revenue of Alternative Solutions, the fair value of this contingent liability was $1,000,000 at May 31, 2019. The Company recorded a charge to operations in the amount of $321,889 during the year ended May 31, 2019.

The full amount of the bonus payment was earned, and on May 27, 2020, the Company made a payment in the amount of $850,000 to the sellers. The Company deposited the balance due to sellers of $150,000 with an escrow agent to hold pending the outcome of a tax audit. During the year ended May 31, 2020, the State of Nevada notified the Oasis LLCs that it would be conducting a tax audit for periods both before and after the closing of the sale to CLS. The Oasis LLCs have not yet received the demand from the State of Nevada with the precise amount due and the amount escrowed is the Company's best estimate of the pre-closing tax liability If the ultimate tax liability is less than $150,000, the balance of the escrowed amount will be paid to sellers. As of May 31, 2020, the $150,000 remains a liability on the Company's balance sheet and $150,000 is recorded in an escrow account in the asset section of the Company's balance sheet.

NOTE 18 – STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of 750,000,000 shares of common stock, par value $0.0001, at May 31, 2020 and 2019, and 20,000,000 shares of preferred stock, par value $0.001 per share. The Company had 126,521,416 and 125,839,095 shares of common stock issued and outstanding as of May 31, 2020 and 2019, respectively.

The Company recorded imputed interest of $0 and $807 during the years ended May 31, 2020 and 2019 on related party payables due to a director and officer of the Company, and charged this amount to additional paid-in capital**.** During the year ended May 31, 2019, the Company repaid the related party payables in the aggregate amount of $17,930.

Year ended May 31, 2020:

Common Stock and Warrants Issued upon Conversion of Notes Payable:

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

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

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

On July 22, 2019, the Company issued 500,000 shares of common stock with a fair value of $355,000 to Ben Sillitoe, Chief Executive Officer of CLS Nevada, in connection with his employment agreement. $325,417 was recorded during fiscal 2019, and issued from stock payable during the year ended May 31, 2020; $29,583 was charged to operations during the year ended May 31, 2020. At issuance, $50 was charged to common stock, and $354,950 was charged to additional paid-in capital.

On July 22, 2019, the Company issued 50,000 shares of common stock with a fair value of $35,495 to Don Decatur, Chief Operating Officer of CLS Nevada, in connection with his employment agreement. $32,542 of this amount was recorded during fiscal 2019, and issued from stock payable during the year ended May 31, 2020; $2,958 was charged to operations during the year ended May 31, 2020. At issuance, $5 was charged to common stock, and $35,495 was charged to additional paid-in capital.

During the year ended May 31, 2020, the Company charged an aggregate of $154,014 to common stock subscribed representing the accrual over the vesting period of 791,668 shares of restricted common stock issuable to officers.

The Company also charged $45,000 to common stock subscribed representing the fair value of 200,000 shares of common stock to be issued to a service provider. During the year ended May 31, 2020, the Company issued 100,000 of these shares of common stock. At issuance, $22,500 was transferred from common stock subscribed; $10 was charged to common stock, and $22,490 was charged to additional paid-in capital.

Year ended May 31, 2019:

Stock Issued upon Conversion of Notes Payable

On June 12, 2018, Darling Capital, holder of a convertible promissory note, converted a total of $565,000, which consisted of $550,000 of principal and $15,000 of accrued interest, into 1,808,000 shares of common stock.

On August 9, 2018, Efrat Investments, holder of a convertible promissory note, converted a total of $57,200, which consisted of $55,000 of principal and $2,200 of accrued interest, into 183,040 shares of common stock.

On August 21, 2018, David Lamadrid, a former executive officer of the Company and holder of a convertible promissory note, converted a total of $32,497, which consisted of $31,250 of principal and $1,247 of accrued interest, into 103,989 shares of common stock.

On August 23, 2018, Jay Lasky, holder of a convertible promissory note, converted a total of $26,185, which consisted of $25,000 of principal and $1,185 of accrued interest, into 65,462 shares of common stock.

On October 23, 2018, Newcan, which is owned by a director of the Company and was the holder of a convertible promissory note, converted a total of $78,534, which consisted of $75,000 of principal and $3,534 of accrued interest, into 196,336 shares of common stock.

On November 14, 2018, YA II PN, holder of a convertible promissory note, converted a total of $280,247, which consisted of $250,000 of principal and $30,247 of accrued interest, into 700,616 shares of common stock.

On January 8, 2019, YA II PN, holder of a convertible promissory note, converted a total of $256,027 which consisted of $250,000 of principal and $6,027 of accrued interest, into 640,068 shares of common stock.

There were no gains or losses on the conversion of notes payable during the year ended May 31, 2019, as all conversions were made pursuant to the terms of the convertible note agreements.

Stock Issued for Services

On June 24, 2018, pursuant to the terms of a severance agreement between the Company and David Lamadrid, the Company issued 600,000 shares of restricted common stock to Mr. Lamadrid. These shares were valued at $264,000 based upon the Company's stock price of $0.44 on Mr. Lamadrid's date of employment. Of this amount, $213,320 had been previously expensed and the remaining $50,680 was charged to operations during the year ended May 31, 2019.

On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, a director and executive officer of the Company, a cash payment in the amount of $250,000 and 700,000 shares of the Company's restricted common stock in recognition of Mr. Glashow's efforts, through Star Associates, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions. The shares were valued at $490,000 based upon the Company's stock price of $0.70 at the date of the grant, and were charged to operations during the year ended May 31, 2019.

On September 11, 2018, the Company issued 31,250 shares of common stock valued at $25,310 based upon the Company's stock price of $0.81 at the date of the grant, in exchange for legal services previously rendered to the Company. These shares were accrued on February 8, 2018, and were issued from stock payable.

Stock Issued for Acquisition

On June 27, 2018, the Company issued 22,058,823 shares of its common stock pursuant to the terms of the Alternative Solutions Acquisition Agreement. These shares were valued at $15,441,176. (See note 4).

Special Warrants Issued in Offering

On June 20, 2018, the Company executed an Agency Agreement with Canaccord Genuity Corp. and closed on a private offering of its special warrants for aggregate gross proceeds of C$13,037,859 (USD$9,785,978). Pursuant to the offering, the Company issued 28,973,020 special warrants at a price of C$0.45 (USD$0.34) per special warrant. Each special warrant was automatically exercisable, for no additional consideration, into units of the Company on the earlier of: (i) the date that was five business days following the date on which the Company obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of the Company's acquisition of all of the membership interests in Alternative Solutions, known as Oasis Cannabis. The Company allocated $4,226,394 of the proceeds from the sale of the special warrants to the underlying stock, and $5,559,584 of the value to the underlying warrants. The value of the warrants underlying the special warrants was determined utilizing the Black-Scholes valuation model. The Company recorded a loss on currency conversion in the amount of $403,588 in connection with the special warrants during the year ended May 31, 2019.

In connection with the offering, the Company paid Canaccord Genuity Corp. a cash commission equal to C$1,043,028 (USD$799,053), a corporate finance fee equal to 1,448,651 special warrants, and 2,317,842 compensation broker warrants valued at $1,495,373. Each compensation broker warrant entitles the holder thereof to acquire one unit at a price of C$0.45 per unit for a period of 36 months from the date that the Company's common stock is listed on a recognized Canadian stock exchange, subject to adjustment in certain events. The 1,448,651 special warrants that were issued were valued at $1,413,300 and were charged to operations during the year ended May 31, 2019.

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

Because the Company did not receive a receipt from the applicable Canadian securities authorities for the qualifying prospectus by August 20, 2018, the unexercised special warrants were adjusted to entitle the holders to receive 1.1 units instead of one unit of the Company. This resulted in the issuance of an additional 3,042,167 units. This penalty was valued at $7,142,550 and was charged to operations during the year ended May 31, 2019.

On November 30, 2018, all of the special warrants were automatically converted into 33,463,838 shares of common stock and warrants to purchase 33,463,838 shares of common stock for CD$0.65 per share.

Stock Issued in Navy Capital Offering

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

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

Stock Issued to Officers

Effective July 1, 2018, the Company granted the Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at $350,000 and will be amortized over the vesting period. As of May 31, 2019, $325,417 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at May 31, 2019.

Effective July 1, 2018, the Company granted the Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at $35,000 and will be amortized over the vesting period. As of May 31, 2019, $32,542 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at May 31, 2019.

Effective August 1, 2018, the Company granted 25,000 shares of restricted common stock to its then Chief Financial Officer. These shares vested four months after issuance. The shares were valued at $17,500, and were amortized over the vesting period. On April 11, 2019, these shares were issued.

Effective March 1, 2019, the Company granted its President and Chief Operating Officer Chief Operating Officer 500,000 shares of restricted common stock, which shall become fully vested two years from the effective date of his employment agreement. These shares were valued at $215,500 and will be amortized over the vesting period. As of May 31, 2019, $26,938 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at May 31, 2019.

Effective May 2, 2019, the Company granted its Chief Financial Officer 50,000 shares of restricted common stock, which shall become fully vested one year from the effective date of his employment agreement. These shares were valued at $17,995 and will be amortized over the vesting period. As of May 31, 2019, $1,428 had been charged to operations, and is carried as Common Stock Subscribed on the Company's balance sheet at May 31, 2019.

Stock Issued upon Cashless Exercise of Warrants

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

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

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

Stock Issued for Settlement

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

Stock Issued for Compensation for Debenture Offering

On December 12, 2018, in connection with the issuance of the Canaccord Debentures, the Company issued 559,750 units as , compensation for advisory and agent fees. Each unit is comprised of one share of common stock and one-half of one common stock purchase warrant at an exercise price of $1.10 per whole share of common stock. As a result, the Company issued 559,750 shares of common stock as compensation for agent and advisory services. These shares were valued at $557,335, and this amount was charged to operations during the year May 31, 2019.

Additional Paid-in Capital

During the year ended May 31, 2019, the Company recorded discounts on two convertible notes payable related to the beneficial conversion features in the amounts of $362,500 on the YA II PN Note 2, and $58,594 on the Newcan Convertible Note 8. Also, during the year ended May 31, 2019, a reset event occurred with regard to the YA II PN 2 Note.

During the year ended May 31, 2019, the Company recorded an original issue discount on the Oasis Note in the amount of $189,180.

On June 1, 2018, the Company adopted ASU 2017-11 and accordingly reclassified the fair value of the reset provisions embedded in the previously issued convertible notes payable and certain warrants with embedded anti-dilutive provisions from liability to additional paid-in capital in the aggregate amount of $1,265,751. On June 20, 2018, a reset event occurred in connection with the YA II PN 2 Note, and the Company charged the change in fair value of the conversion feature in the amount of $35,833 to additional paid-in capital. This was considered a material modification of the note, and the Company created a new discount to this note in the amount of $750,000, which was charged to additional paid-in capital.

During the year ended May 31, 2019, the Company recorded discounts on six convertible debentures related to the beneficial conversion features as follows: a discount of $3,254,896 was recorded on U.S. Convertible Debenture 1; a discount of $813,724 was recorded on U.S. Convertible Debenture 2; a discount of $75,415 was recorded on U.S. Convertible Debenture 3; a discount of $416,653 was recorded on U.S. Convertible Debenture 4; a discount of $120,100 was recorded on U.S. Convertible Debenture 5; and a discount of $60,049 was recorded on U.S. Convertible Debenture 6.

Warrants

On June 27, 2018, the Company incurred a penalty in connection with the WestPark Offering due to the late filing of the registration statement that included the resale of the securities that were sold in such offering. As a result of the penalty, the Company issued three-year common stock warrants to purchase an aggregate of 1,368,250 shares of the Company's common stock at an exercise price of $0.50 per share. In addition, the Company reduced the exercise price of the common stock purchase warrants previously issued to the investors in the WestPark Offering from $0.75 per share to $0.50 per share. The fair value of the penalty was $941,972; this amount was charged to operations during the year ended May 31, 2019.

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

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

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

The Company valued warrants using the Black-Scholes valuation model utilizing the following variables:

	May 31, 2020	May 31, 2019
Volatility	-%	79.02 to 400.3%
Dividends	$ -	$ 0
Risk-free interest rates	-%	2.68% to 2.77%
Term (years)	-	3

The following table summarizes the significant terms of warrants outstanding at May 31, 2020. This table does not include the unit warrants. See Unit Warrants section below.

Range of exercise Prices	Number of warrants Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding Warrants	Number of warrants Exercisable	Weighted average exercise price of exercisable Warrants
$ 0.49	33,465,110	1.50	$ 0.49	33,465,110	$ 0.49
0.50	2,736,500	1.73	0.50	2,736,500	0.50
0.60	17,500,000	1.50	0.60	17,500,000	0.60
0.75	837,500	0.72	0.75	837,500	0.75
1.10	296,035	1.56	1.10	296,035	1.10
	54,835,145	1.50	$ 0.53	54,835,145	$ 0.53

Transactions involving warrants are summarized as follows. This table does not include the special warrants or unit warrants. See Special Warrants and Unit Warrants sections below.

	Number of Shares	Weighted Average Exercise Price
Warrants outstanding at May 31, 2018	4,495,750	$ 0.61
Granted	50,738,235	$ 0.653
Exercised	(415,000)	$ 0.75
Cancelled / Expired	-	$ -
Warrants outstanding at May 31, 2019	54,818,985	$ 0.53
Granted	16,160	$ 1.10
Exercised	-	$ -
Cancelled / Expired	-	$ -
Warrants outstanding at May 31, 2020	54,835,145	$ 0.53

Special Warrants

On June 20, 2018, the Company sold 28,973,019 special warrants for net proceeds of US$9,785,978. Each special warrant was automatically exercisable, for no additional consideration, for units of the Company on the earlier of: (i) the date that was five business days following the date on which the Company obtained a receipt from the applicable securities regulatory authorities in each of the jurisdictions in Canada in which the special warrants were sold for a final prospectus qualifying the distribution of the units, which was intended to be no later than November 30, 2018, and (ii) the date that was four months and one day after the completion of the Company's acquisition of all of the membership interests in Alternative Solutions, known as Oasis Cannabis, which was June 28, 2018. The Company allocated $4,226,394 of the proceeds from the sale of the special warrants to the underlying stock, and $5,559,584 of the value to the underlying warrants. The value of the warrants underlying the special warrants was determined utilizing the Black-Scholes valuation model. The Company recorded a loss on currency conversion in the amount of $403,588 in connection with the special warrants during the year ended May 31, 2019.

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

Because the Company did not receive a receipt from the applicable Canadian securities authorities for the qualifying prospectus by August 20, 2018, the unexercised special warrants were adjusted to entitle the holders to receive 1.1 units instead of one unit of the Company. This resulted in the issuance of an additional 3,042,167 units. This penalty was valued at $7,142,550 and was charged to operations during the year ended May 31, 2019.

On November 30, 2018, all of the special warrants were automatically exercised for an aggregate of 33,463,838 shares of common stock and three-year warrants to purchase 33,463,838 shares of common stock for CD$0.65 per share.

Because the special warrants were exercisable for Common Stock and warrants, they were not included in the warrant tables above. There were no special warrants outstanding at May 31, 2020 or 2019.

Unit Warrants

On June 20, 2018, in connection with the special warrant offering, the Company issued Canaccord Genuity Corp. 2,317,842 three-year broker warrants at an exercise price of C$0.45 per share as compensation. Each warrant entitles the holder to purchase one unit, which consists of one share of common stock and a warrant to purchase one share of common stock, for C$0.65 per share. These warrants were valued at $1,495,373, and this amount was charged to operations during the year ended May 31, 2019.

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

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

NOTE 19 – GAIN ON SETTLEMENT OF LIABILITIES

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

NOTE 20 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company has issued convertible notes containing beneficial conversion features. One of the features is a ratchet reset provision which, in general, reduces the conversion price should the Company issue equity with an effective price per share that is lower than the stated conversion price in the note. The Company accounts for the fair value of the conversion feature in accordance with ASC 815- Accounting for Derivatives and Hedging and Emerging Issues Task Force ("EITF") 07-05- Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF 07-05"). The Company carries the embedded derivative on its balance sheet at fair value and accounts for any unrealized change in fair value as a component of its results of operations. The Company also had a contingent liability in connection with the acquisition of Alternative Solutions (see note 17).

The following summarizes the Company's financial liabilities that are recorded at fair value on a recurring basis at May 31, 2020 and 2019:

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

	May 31, 2019			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities				
Derivative liabilities	$ -	$ -	$ -	$ -

NOTE 21 – RELATED PARTY TRANSACTIONS

As of May 31, 2020 and 2019, the Company had accrued salary due to Michael Abrams, a former officer of the Company prior to his September 1, 2015 termination, in the amount of $16,250.

On July 27, 2018, the Company granted 25,000 shares of restricted common stock to Frank Tarantino, its former Chief Financial Officer. These shares vested four months after issuance. The shares were valued at $17,500, and were amortized over the vesting period. These shares were issued on April 11, 2019.

On July 31, 2018, the Company granted Ben Sillitoe, the former Chief Executive Officer of CLS Nevada, Inc. a one-time signing bonus of 500,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. These shares were valued at $355,000 and were amortized over the vesting period. As of May 31, 2020 and 2019, $29,583 and $325,417 had been charged to operations, respectively. On July 22, 2019, the Company issued these shares to Mr. Ben Sillitoe.

On July 31, 2018, the Company granted Mr. Don Decatur, the former Chief Operating Officer of CLS Nevada, Inc. a one-time signing bonus of 50,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. These shares were valued at $35,000 and were amortized over the vesting period. As of May 31, 2020 and 2019, $2,958 and $32,542 had been charged to operations, respectively. On July 22, 2019, the Company issued these shares to Mr. Decatur.

On July 24, 2018, the Company awarded Star Associates, LLC, a limited liability company owned by Andrew Glashow, a director of the Company, a cash payment in the amount of $250,000 and 700,000 shares of restricted common stock in recognition of Mr. Glashow's efforts, through Star Associates, in successfully assisting the Company in negotiating and obtaining the financing necessary to acquire Alternative Solutions. The shares were valued at $490,000 and were charged to operations during the year ended May 31, 2019.

Related Party Notes Payable

During the year ended May 31, 2019, the Company made principal and interest payments to Mr. Binder in the amount of $37,500 and $3,903, respectively. At May 31, 2020 and 2019, the Company had no principal or accrued interest payable to Mr. Binder.

During the year ended May 31, 2019, David Lamadrid converted principal in the amount of $31,250 and accrued interest in the amount of $1,247 into a total of 103,989 shares of common stock. At May 31, 2020 and 2019, the Company had no principal or accrued interest payable to Mr. Lamadrid.

During the year ended May 31, 2019, Newcan Investment Partners, LLC, converted principal in the amount of $75,000 and accrued interest in the amount of $3,534 into a total of 196,336 shares of common stock. At May 31, 2020 and 2019, the Company had no principal or accrued interest payable to Newcan Investment Partners, LLC.

NOTE 22 – 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, 2020 and 2019, 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 Company's tax rate was reduced from 34% for the year ended May 31, 2018 to 21% for the year ended May 31, 2020 and 2019 due to changes in the federal income tax rate enacted by the 2018 Tax Cuts and Jobs Act. 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, 2020	May 31, 2019
Federal and state statutory rate	21%	21%
Net operating loss carry forwards	2,538,429	3,001,749
Valuation allowance for deferred tax assets	(2,538,429)	(3,001,749)
Net deferred tax assets	-	-

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

As of May 31, 2020 and 2019, the Company had net operating loss carry forwards of approximately $12,087,758 and $14,294,045 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 realized. Accordingly, the Company has provided for a full valuation allowance against its net deferred tax assets at May 31, 2020 and 2019. The Company had no uncertain tax positions as of May 31, 2020.

NOTE 23 – COMMITMENTS AND CONTINGENCIES

Lease Arrangements

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

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

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

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

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

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

In August 2017, the Company's Colorado subsidiary received a demand letter from its Colorado landlord requesting the forfeiture of the $50,000 security deposit, $10,000 in expenses, $15,699 in remaining rent due under the lease agreement and $30,000 to buy out the remaining amounts due under the lease. These expenses, which are a liability of the Company's Colorado subsidiary, have been accrued on the balance sheet as of May 31, 2020.

Contingent Liability

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

Employment Agreements

CLS Labs and Jeffrey Binder entered into a five-year employment agreement effective October 1, 2014. Under the agreement, Mr. Binder serves as CLS Labs' Chairman and Chief Executive Officer and is entitled to receive an annual salary of $150,000. Under the agreement, Mr. Binder is also entitled to receive a performance bonus equal to 2% of CLS Labs' annual EBITDA, up to a maximum annual cash compensation of $1 million (including his base salary), and annual stock options, exercisable at the fair market value of CLS Labs' common stock on the date of grant, in an amount equal to 2% of its annual EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. On April 28, 2015, CLS Labs and the Company entered into an addendum to Mr. Binder's employment agreement whereby Mr. Binder agreed that following the merger of CLS Labs and a subsidiary of the Company, in addition to his obligations to CLS Labs, he would serve the Company and its subsidiaries in such roles as the Company may request. In exchange, the Company agreed to assume the obligations of CLS Labs to grant Mr. Binder annual stock options, as referenced above. On July 20, 2016, March 31, 2017, August 23, 2017, October 9, 2017, January 5, 2018 and April 6, 2018, the Company issued Mr. Binder convertible notes in exchange for $250,000, $112,500, $62,500, $39,521, $37,500 and $37,500 respectively, in deferred salary, among other amounts owed to Mr. Binder by the Company. On October 14, 2019 but effective October 1, 2019, CLS Labs, Inc., the Company, and Jeffrey Binder entered into an amendment to Mr. Binder's employment agreement to provide that the Company would assume all obligations of CLS Labs under the employment agreement. The amendment also extends the term of Mr. Binder's employment agreement by three years instead of relying on the automatic one-year renewal provision in the employment agreement, and increases Mr. Binder's annual base salary to $200,000. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Binder resigns or is terminated in connection with a change in control of the Company. In connection with the amendment, the parties also amended and restated that certain Confidentiality, Non-Compete and Property Rights Agreement entered into by and between RJF Labs, Inc. (now CLS Labs), and Mr. Binder effective as of July 16, 2014.

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

On July 31, 2018, the Company and Mr. Sillitoe entered into a one-year employment agreement. Pursuant to the agreement, Mr. Sillitoe commenced serving as the Chief Executive Officer of CLS Nevada, Inc. effective July 1, 2018. Under the agreement, Mr. Sillitoe is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company's common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Sillitoe received a one-time signing bonus of 500,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. On July 31, 2019, CLS Nevada, Inc. and Mr. Sillitoe amended Mr. Sillitoe's employment agreement to effect the original intention of the parties that the performance bonus would be based on the results of Alternative Solutions and not CLS Nevada, Inc. On April 16, 2020, CLS Nevada, Inc. notified Mr. Sillitoe of its intent not to renew the employment agreement upon its termination on June 30, 2020.

CLS Nevada, Inc. and Mr. Decatur entered into a one-year employment agreement effective July 31, 2018. Pursuant to the agreement, Mr. Decatur commenced serving as the Chief Operating Officer of CLS Nevada, Inc. on July 1, 2018. Under the agreement, Mr. Decatur is entitled to receive an annual salary of $150,000. Further, he is entitled to receive a performance bonus equal to 2% of the annual EBITDA of CLS Nevada, Inc., and annual restricted stock awards of the Company' common stock in an amount equal to 3% of the annual EBITDA of CLS Nevada, Inc. Additionally, Mr. Decatur received to a one-time signing bonus of 50,000 shares of restricted common stock, which became fully vested one year from the effective date of his employment agreement. On May 14, 2019, CLS Nevada and Mr. Decatur entered into an amendment to his employment agreement to extend the term of Mr. Decatur's employment agreement by two years instead of relying on the automatic one-year renewal provision in the employment agreement. On July 31, 2019, CLS Nevada, Inc. and Mr. Decatur amended Mr. Decatur's employment agreement to effect the original intention of the parties that the performance bonus would be based on the results of Alternative Solutions and not CLS Nevada, Inc. On December 16, 2019, Mr. Decatur resigned from his position as Chief Operating Officer of CLS Nevada, Inc., effective immediately, for personal reasons.

On March 1, 2019, the Company and Mr. Glashow entered into a two-year employment agreement and Mr. Glashow commenced serving as the Company's President and Chief Operating Officer. Under the agreement, Mr. Glashow is entitled to receive an annual salary of $175,000. Further, he is entitled to receive a performance bonus equal to 1% of the Company's annual EBITDA, and annual restricted stock awards in an amount equal to 1% of the Company's annual EBITDA. Additionally, Mr. Glashow is entitled to a one-time signing bonus of 500,000 shares of the Company's restricted common stock, half of which shall vest on March 1, 2020, and half of which shall vest on March 1, 2021. Effective March 1, 2019, and in connection with the employment agreement, Mr. Glashow and the Company entered into a Confidentiality, Non-Compete and Proprietary Rights Agreement. Pursuant thereto, Mr. Glashow agreed (i) not to compete with us during the term of his employment and for a period of one year thereafter, (ii) not to release or disclose our confidential information, and (iii) to assign the rights to all work product to us, among other terms. On October 14, 2019, but effective October 1, 2019, the Company and Mr. Glashow entered into an amendment to his employment agreement to extend the term by one year instead of relying on the automatic one-year renewal provision in the employment agreement, and to increase Mr. Glashow's annual base salary to $200,000. The amendment also provides that in addition to his base salary, Mr. Glashow is entitled to receive, on an annual basis, a performance-based bonus equal to two percent (2%) of the Company's annual EBITDA up to a maximum annual cash compensation of $1 million including base salary, and annual stock options, exercisable at the fair market value of the Company's common stock on the effective date of grant, in an amount equal to 2% of the Company's EBITDA up to $42.5 million and 4% of its annual EBITDA in excess of $42.5 million. Additionally, the amendment provides for certain change of control provisions, including a payment of up to three years base salary and bonuses up to a maximum of $1,000,000, if Mr. Glashow resigns or is terminated in connection with a change in control of the Company.

On May 2, 2019, the Company and Gregg Carlson entered into a one-year employment agreement. Pursuant to the employment agreement, Mr. Carlson commenced serving as the Company's Chief financial Officer on May 1, 2019 and will continue his employment with us pursuant to the terms of his one-year employment agreement with Alternative Solutions effective April 8, 2019. Mr. Carlson receives an annual salary of $110,000, and received a one-time signing bonus of 50,000 shares of restricted common stock of the Company, which shall become fully vested one year from the effective date of his employment agreement assuming Mr. Carlson remains employed by the Company on such date.

At May 31, 2020 and 2019, the Company had accrued salary due to Michael Abrams, a former officer of the Company, prior to his September 1, 2015 termination, in the amount of $16,250.

NOTE 24 – SUBSEQUENT EVENTS

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

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

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

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

- 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.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

Item 11. Executive Compensation.

The information required by this Item 11 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

Item 14. Principal Accounting Fees and Services.

The information required by this Item 14 is incorporated herein by reference to the applicable information in the Proxy Statement for our 2020 Annual Meeting of Stockholders to be filed with the Commission not later than 120 days after the close of the fiscal year.

PART IV

Item 15. Exhibits

The following exhibits are included as part of this Annual Report on Form 10-K by reference:

Exhibit	Description
2.1	Agreement and Plan of Merger dated April 29, 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).
2.2	Membership Interest Purchase Agreement dated December 4, 2017 between CLS Holdings USA, Inc. and Alternative Solutions, LLC (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on December 7, 2017).
2.3	First Amendment to the Membership Interest Purchase Agreement by and between CLS Holdings USA, Inc. and Alternative Solutions, LLC dated January 16, 2018 (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 19, 2018).
2.4	Second Amendment to the Membership Interest Purchase Agreement by and between CLS Holdings USA, Inc. and Alternative Solutions, LLC dated January 25, 2018 (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on January 26, 2018).
2.5	Third Amendment to the Membership Interest Purchase Agreement by and between CLS Holdings USA, Inc. and Alternative Solutions, LLC effective as of March 27, 2018 (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on April 4, 2018).
2.6	Fourth Amendment to the Membership Interest Purchase Agreement by and between CLS Holdings USA, Inc. and Alternative Solutions, LLC effective as of March 27, 2018 (incorporated by reference from Exhibit 2.2 in the Company's Current Report on Form 8-K filed with the SEC on April 4, 2018).
2.7	Fifth Amendment to the Membership Interest Purchase Agreement by and between CLS Holdings USA, Inc. and Alternative Solutions, LLC effective as of May 17, 2018 (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on May 21, 2018).
2.8	Membership Interest Purchase Agreement, dated March 11, 2019, by and among CLS Massachusetts, Inc., CannAssist, LLC, the Members of CannAssist, LLC party thereto, and David Noble, in his capacity as Member Representative (incorporated by reference from Exhibit 2.1 in the Company's Current Report on Form 8-K filed with the SEC on March 15, 2019).
2.9	First Amendment to Secured Promissory Note and Security Agreement and Termination of Membership Interest Purchase Agreement, dated August 26, 2019, by and among CannAssist and CLS Holdings USA, Inc. (incorporated by reference from Exhibit 2.9 in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019 filed with the SEC on August 29, 2019).
3.1	Articles of Incorporation of Adelt Design, Inc. (incorporated by reference from Exhibit 3.1 in the Company's Registration Statement filed with the SEC on June 3, 2011).
3.2	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).
3.3	Certificate of Amendment to Amended and Restated Articles of Incorporation of CLS Holdings USA, Inc. (incorporated by reference from Annex A to the Company's Proxy Statement on Schedule 14A filed with the SEC on April 29, 2019).

3.4	Bylaws of Adelt Design, Inc. (incorporated by reference from Exhibit 3.2 in the Company's Registration Statement filed with the SEC on June 3, 2011).
3.5	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).
3.6	Certificate of Designation effective July 18, 2017. (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).
4.2	Special Warrant Indenture dated June 20, 2018 between CLS Holdings USA, Inc. and Odyssey Trust Company (incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K filed with the SEC on June 26, 2018).
4.3	Warrant Indenture dated June 20, 2018 between CLS Holdings USA, Inc. and Odyssey Trust Company (incorporated by reference from Exhibit 4.2 in the Company's Current Report on Form 8-K filed with the SEC on June 26, 2018).
4.4	Debenture Indenture dated December 12, 2018 by and between the Company and Odyssey Trust Company (incorporated by reference from Exhibit 4.1 in the Company's Current Report on Form 8-K filed with the SEC on December 18, 2018).
4.5	Warrant Indenture dated December 12, 2018 by and between the Company and Odyssey Trust Company (incorporated by reference from Exhibit 4.2 in the Company's Current Report on Form 8-K filed with the SEC on December 18, 2018).
4.6*	Description of Registrant's Securities
10.1.A	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).
10.1.B	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).
10.1.C	Amendment to Employment Agreement, dated October 14, 2019 but effective October 1, 2019, by and among CLS Holdings, Inc., CLS Labs, Inc. and Jeffrey I. Binder (incorporated by reference from Exhibit 10.1 in the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2019 filed with the SEC on October 15, 2019). (1)
10.2	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).
10.3	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).
10.4	Confidentiality, Non-Compete and Proprietary Rights Agreement dated July 16, 2014 between CLS Labs, Inc. and Raymond Keller (incorporated by reference from Exhibit 10.12 in the Company's Current Report on Form 8-K filed with the SEC on April 30, 2015).
10.5	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, 2015).

10.6	Convertible Promissory Note dated April 6, 2018 in favor of Jeffrey Binder in the original principal amount of $37,500.00 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on April 11, 2018).
10.7	Warrant to Purchase 1,875,000 shares of Common Stock issued May 14, 2018 by CLS Holdings USA, Inc. in favor of YA II PN, Ltd. (incorporated by reference from Exhibit 10.3 in the Company's Current Report on Form 8-K filed with the SEC on May 17, 2018).
10.8	Agency Agreement dated June 20, 2018 by and between CLS Holdings USA, Inc. and Canaccord Genuity Corp. (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on June 26, 2018).
10.9	6% Secured Promissory Note of CLS Holdings USA, Inc. in favor of Serenity Wellness Enterprises, LLC, as nominee, in the aggregate principal amount of $4,000,000 dated June 27, 2018 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on June 29, 2018).
10.10	Convertible Debenture dated July 20, 2018 in the original principal amount of $500,000 made by CLS Holdings USA, Inc. in favor of YA II PN, Ltd. (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on July 24, 2018).
10.11	Warrant to Purchase 1,250,000 shares of Common Stock issued July 20, 2018 by CLS Holdings USA, Inc. in favor of YA II PN, Ltd (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on July 24, 2018).
10.12	Bonus Award Letter to Star Associates, LLC dated July 24, 2018 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on July 30, 2018). (1)
10.13	Employment Agreement dated July 31, 2018 between CLS Nevada, Inc. and Benjamin Sillitoe (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 1, 2018) (1).
10.14	Employment Agreement dated July 31, 2018 between CLS Nevada, Inc. and Don Decatur (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on August 1, 2018) (1).
10.15	First Amendment to Employment Agreement, dated May 14, 2019, by and between CLS Nevada, Inc. and Don Decatur (incorporated by reference from Exhibit 10.48 in the Company's Registration Statement (File No. 333- 232553) on Form S-1 filed with the SEC on July 3, 2019) (1).
10.16	Form of Subscription Agreement and Warrant with six accredited investors of Units, each consisting of one share and one warrant to purchase one share, in the aggregate amount of $5,750,000 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 6, 2018).
10.17	Convertible Promissory Note dated August 6, 2018 in favor of Newcan Investment Partners LLC in the original principal amount of $75,000.00 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 7, 2018).
10.18	Form of Subscription Agreement and Warrant with six accredited investors for the purchase of 8% convertible debentures in the aggregate amount of $5,857,000 (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2018).
10.19	Option Agreement, dated October 31, 2018, by and among CLS Holdings USA, Inc., CLS Massachusetts, Inc. and In Good Health, Inc. (incorporated by reference from Exhibit 10.4 in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2018).

10.20	Loan Agreement, dated October 31, 2018, by and between CLS Holdings USA, Inc. and In Good Health, Inc. (incorporated by reference from Exhibit 10.5 in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2018).
10.21	Secured Promissory Note, dated October 31, 2018, issued by In Good Health, Inc. in favor of CLS Holdings USA, Inc. (incorporated by reference from Exhibit 10.6 in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2018).
10.22	Security Agreement, dated October 31, 2018, by and between CLS Holdings USA, Inc. and In Good Health, Inc. (incorporated by reference from Exhibit 10.7 in the Company's Current Report on Form 8-K filed with the SEC on November 6, 2018).
10.23	Agency Agreement dated December 12, 2018 by and between the Company and Canaccord Genuity Corp (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on December 18, 2018)
10.24	Loan Agreement, dated January 29, 2019, by and between CLS Holdings USA, Inc. and CannAssist, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on February 4, 2019
10.25	Secured Promissory Note, dated January 29, 2019, issued by CannAssist, LLC in favor of CLS Holdings USA, Inc. (incorporated by reference from Exhibit 10.2 in the Company's Current Report on Form 8-K filed with the SEC on February 4, 2019)
10.26	Security Agreement, dated January 29, 2019, by and between CLS Holdings USA, Inc. and CannAssist, LLC (incorporated by reference from Exhibit 10.3 in the Company's Current Report on Form 8-K filed with the SEC on February 4, 2019)
10.27.A	Employment Agreement dated March 1, 2019 between CLS Holdings USA, Inc. and Andrew Glashow (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on March 7, 2019) (1).
10.27.B	Amendment to Employment Agreement, dated October 14, 2019 but effective October 1, 2019, by and among CLS Holdings USA, Inc., and Andrew Glashow (incorporated by reference from Exhibit 10.2 in the Company's Quarterly Report on Form 10-Q for the quarter ended August 31, 2019 filed with the SEC on October 15, 2019) (1)
10.28	Employment Agreement, dated April 8, 2019, by and between Alternative Solutions, LLC and Gregg Carlson (incorporated by reference from Exhibit 10.62 in the Company's Registration Statement (File No. 333- 232553) on Form S-1 filed with the SEC on July 3, 2019 (1).
10.29	Form of First Amendment to Convertible Debenture with Navy Capital Green International, Ltd., Darling Capital, LLC and Murray FO, LLC (incorporated by reference from Exhibit 10.1 in the Company's Current Report on Form 8-K filed with the SEC on August 1, 2019).
10.30	First Amendment to Option Agreement, dated August 26, 2019, by and among CLS Massachusetts, Inc., CLS Holdings USA, Inc., and In Good Health, Inc. (incorporated by reference from Exhibit 10.61 in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2019 filed with the SEC on August 29, 2019).
10.31	Lease Agreement by and between 1800 Industrial, LLC and Alternative Solutions, L.L.C. dated July 6, 2014 for premises located at 1800 Industrial Road, Suites 102, 160 and 180 (incorporated by reference from Exhibit 10.71 in the Company's Annual Report on Form 10-K filed with the SEC on August 29, 2018.
10.31.A*	Lease Addendum dated June 13, 2018 to Lease Agreement by and between 1800 Industrial, L.L.C. and Alternative Solutions, L.L.C. dated July 6, 2014

10.32	Standard Industrial/Commercial Single-Tenant Lease by and between SFC Leasing, LP and Serenity Wellness Growers, LLC dated December 3, 2015, as amended by that certain First Amendment dated January 12, 2016, and that certain Second Amendment dated August 22, 2016 (incorporated by reference from Exhibit 10.72 in the Company's Annual Report on Form 10-K filed with the SEC on August 29, 2018.
10.33*	Lease Agreement by and between 1800 Industrial, LLC and CLS Nevada Inc. dated February 1, 2019 for premises located at 1800 Industrial Road, Suite 100
10.34*	Lease Agreement by and between 1800 Industrial, LLC and CLS Nevada Inc. dated February 1, 2019 for premises located at 1718 Industrial Road
10.35*	Lease Addendum dated February 25, 2020 to Leases dated July 6, 2014 and February 1, 2019 for or premises located at 1800 Industrial Road, Suites 100, 102, 160 and 180
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 of 2002
31.2*	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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.

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 31, 2020

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

Date: August 31, 2020

By: /s/ Gregg Carlson
Gregg Carlson
Chief Financial Officer
(Principal Financial and Accounting 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, Chief Executive Officer and Director (Principal Executive Officer)	August 31, 2020
/s/ Gregg Carlson Gregg Carlson	Chief Financial Officer (Principal Financial and Accounting Officer)	August 31, 2020
/s/ Frank Koretsky Frank Koretsky	Director	August 31, 2020
/s/ Andrew Glashow Andrew Glashow	President, Chief Operating Officer and Director	August 31, 2020

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following description of capital stock of CLS Holdings USA, Inc. (the "Company," "we," "us," or "our") is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Company's Amended and Restated Articles of Incorporation, as amended (the "Articles of Incorporation"), and Amended and Restated Bylaws (the "Bylaws"), each of which are incorporated by reference as exhibits to the Annual Report on Form 10-K as to which this Exhibit 4.6 is also an exhibit. This description is qualified in its entirety by, and should be read in conjunction with, the Articles of Incorporation and Bylaws.

Authorized Share Capital

The authorized capital of the Company consists of 750,000,000 shares of common stock, par value $0.0001 per share (the "Common Stock") and 20,000,000 shares of preferred stock, par value $0.001 per share (the "Preferred Stock") issuable in series, which may contain the rights, privileges and restrictions as determined by our Board of Directors.

Common Stock

Holders of shares of Common Stock are entitled to receive notice of any meetings of stockholders of the Company and to attend and to cast one vote per share of Common Stock at all such meetings. Holders of Common Stock 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 *pari passu* with the holders of Common Stock with respect to dividends or liquidation. The Common Stock is not convertible or redeemable and has no preemptive, subscription, redemption or conversion rights, nor does it have any sinking or purchase fund provisions. There are no conversions, redemption, sinking fund or similar provisions regarding the shares of Common Stock.

Election of Directors

Our Articles of Incorporation provide that the Board of Directors be divided into three classes with each class serving a staggered three-year term. Holders of Common Stock do not have cumulative voting rights with respect to the election of directors and, accordingly, holders of a majority of our Common Stock entitled to vote in any election of directors may elect all directors standing for election.

Dividends

Dividends, if any, will be contingent upon our revenues and earnings, if any, capital requirements, and our financial condition. The payment of dividends, if any, will be within the discretion of our Board of Directors. We intend to retain earnings, if any, for use in our business operations and accordingly, our Board of Directors does not anticipate declaring any dividends in the foreseeable future.

Preferred Stock

The Articles of Incorporation and Bylaws contain provisions that authorize the issuance of shares of "blank check" preferred stock, which means our Board of Directors has broad authority to create classes of preferred stock and to determine voting, dividend, conversion and other rights with respect to each such class of preferred stock. In most cases, preferred stock will have rights that are senior to those of our Common Stock in at least some respects. Our Board of Directors may create and issue shares of preferred stock for future financings or in connection with certain types of acquisitions. In addition, our Board of Directors may issue preferred stock where appropriate to discourage a takeover attempt. Our Board of Directors has the authority to issue common and preferred shares without stockholder approval. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of holders of Preferred Stock that may be issued in the future.

Exhibit 10.31.A

June 13, 2018

From: 1800 Industrial, LLC
1800 Industrial Road, Suite 108G
Las Vegas, NV 89102

To: Alternative Solutions, LLC
1800 Industrial Road, Suites 102, 160, & 180
Las Vegas, NV 89102

RE: Lease Addendum

Term:	Five (5) Years
Commencement of Rent:	July 1, 2018 ending on June 30, 2023
Basic Rent:	Months 01 thru 12 at $8,441.30 Months 13 thru 24 at $8,694.54 Months 25 thru 36 at $8,955.38 Months 37 thru 48 at $9,224.04 Months 49 thru 60 at $9,500.76
CAM Rate:	$0.23 per square foot (total of 6,900 sqft) In addition to the monthly base rent.

Renewal Option: One (1) option-to-renew for a five (5) year term with rent starting at the then market rate for like spaces, but not less than rent for the fifth year of the original lease term.

All other terms of lease agreement will remain in full force and effect.

Benjamin Sillitoe
LESEE: Print

/s/ Benjamin Sillitoe — 6/13/2018
LESEE: Alternative Solutions, LLC — Date:

Blanca Fox
LESSOR: Print

/s/ Blanca Fox — 6/13/2018
LESSOR: 1800 Industrial, LLC — Date:

Exhibit 10.33

LEASE AGREEMENT

By and between

1800 Industrial, LLC
(LANDLORD)

AND

CLS Nevada Inc.
(TENANT)

PREMISES:

Suite 100
1800 Industrial Road
Las Vegas, Nevada 89102

Lease Summary

Date: February 1, 2019

Landlord: 1800 Industrial, LLC

Tenant: CLS Nevada, Inc. or its assigns

Premises: 1800 Industrial Road, Suite 100

Las Vegas, NV 89102

Size of Premises: 2,504 square feet (suite 100)

Term: Eighteen (18) months

Commencement of Rent: February 1, 2019, unless an earlier date is mutually agreed upon by both parties

Basic Rent:

Months 01 through 12 $3,210.30

Months 13 through 18 $3,338.71

After Renewal Commencing September 1, 2020

Months 01 through 12 $3,338.71

Months 13 through 24 $3,472.26

Months 25 through 34 $3,611.15

After Renewal Commencing July 1, 2023

Months 01 through 12 $3,755.60

Months 13 through 24 $3,905.82

Months 25 through 36 $4,062.05

Months 37 through 48 $4,224.54

Months 49 through 60 $4,393.52

CAM Rate: $0.23 per square foot (total of 2,504 sq. ft) in addition to the monthly base rent. Tenant is also responsible for making sewer payments; which must be paid quarterly.

Renewal Options: Three (3) months prior to end term of August 31,2020. Tenant must inform Landlord if they will be renewing the lease. On September 1, 2020, Tenant has one (1) option-to-renew for a 34-month term with rent starting at the then market rate for like spaces, but not less than rent for the 18th month of the original lease term. The renewal term is intended to coincide with the expiration/renewal of the lease for spaces 102,160, and 180. On July 1, 2023, Tenant has one (1) additional option-to-renew for a 60-month term with rent starting at the then market rate for like spaces, but not less than rent for the 34th month of the 1st renewal lease term.

Security Deposit: $3,210.30 equal to one month's rent

Landlord's Address: 1800 Industrial Road, Suite 108G
Las Vegas, NV 89102

Tenant's Address: 1800 Industrial Road, Suite 180
Las Vegas, NV 89102

THIS LEASE is made and entered into as of this _____ day of October, 2018, by and between **CLS Nevada. Inc. ("Tenant") and 1800 Industrial, LLC ("Landlord").**

1. Lease of Premises.

1.1 Lease. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, those certain premises (the **"Premises")** commonly described as 1800 Industrial Road, Suite 100, Las Vegas, Nevada 89102, consisting of approximately Two Thousand five hundred and 4 (2,504) square foot storefront. Tenant shall have the non-exclusive right to use the common areas and public areas in the Premises.

1.2 Modification of Premises. Tenant shall have the right to alter and modify the Premises. Landlord shall have the right to determine the architecture, design, appearance, construction, workmanship, materials and equipment with respect to the construction of the Building and all other portions of the Premises; provided, however, Tenant shall not materially alter the areas, floor elevations and other characteristics of the Premises without the express consent of Landlord, which consent shall not be unreasonably withheld or delayed.

2. Purpose.

2.1 Uses. The Premises shall be used only for any legal uses, as approved by the City of Las Vegas and State of Nevada.

2.2 Limitation on Uses. Tenant shall not use or occupy the Premises, or permit the use or occupancy of the Premises, in any manner or for any purpose which: (a) would violate any State of City law or regulation of any governmental authority, or the provisions of any applicable governmental permit or recorded document; (b) would adversely affect or render more expensive any fire or other insurance maintained by Landlord for the Building or any of its contents; (c) might impair or interfere with any of the services and systems of the Building, including without limitation, the Building's electrical, mechanical, fire and life safety, structural, plumbing, heating, ventilation and air conditioning systems (collectively, the **"Building Systems")** or the janitorial, security and building maintenance services (collectively, the **"Service Facilities");** (d) would injure or annoy, or obstruct or interfere with the rights of other tenants or occupants of the Building or impair the appearance of the Building or be prejudicial to the business or reputation of Landlord or the Premises; or (e) is not compatible with the existing use of the Building by other tenants. Further, Tenant's business machines and mechanical equipment which cause vibration or noise that may be transmitted to the Building structure or beyond the Premises shall be installed, maintained and used by Tenant so as to eliminate such vibration or noise. Tenant shall reimburse Landlord for any cost incurred by Landlord in enforcing the provisions of this Article 2 or as a result of Tenant's breach hereof (including, without limitation, any increase in insurance premiums resulting from Tenant's s use).

2.3 Compliance with Permits. Tenant shall procure and maintain any license or permit

required for the lawful conduct of its business or other activity on the Premises, submit such license or permit for inspection by Landlord if so requested, and comply at all times with all terms and conditions thereof. The lease of the Premises shall be subject to all statutes, laws, ordinances and regulations applicable from time to time to the use, occupancy or possession of the Premises.

3. Term.

3.1 Commencement Date. The term of this Lease shall commence on February 1, 2019 or at an earlier date (**"**the Commencement Date**"**), should both parties mutually agree, and shall end eighteen (18) months. from that date, or no later than the last day of the month following commencement. September 1, 2020 is when the first 34-month option begins. Tenant must inform ninety (90) days prior to end of term date if they will be renewing. The payment of rent commences as set forth in Section 4.1 of this Lease, unless sooner terminated pursuant hereto.

4. Rent.

Basic Rent: The sum of $5,005.20 shall be due on the first day of February 2019, and each month thereafter thru the last day of January 2020.

When 34-month renewal option commences: Adjustment after the first 12 months of rent agreement the rental amount will be adjusted as follows: Effective upon the first day of the month immediately following the 12-month expiration from date of commencement of the term, and upon the expiration of each 12 months thereafter, in accordance with a **fixed 4% annual increases.**

The sum of $3210.30 shall be due on the first day of February 1, 2020, and each month thereafter thru the last day of January 2021. The sum of $3,378.71 shall be due on the first day of February 2021, and each month thereafter thru the last day of January 2022. The sum of $3,472.26 shall be due on the first day of February 2022 and each month thereafter thru the last day of January 2023. The sum of $3,611.15 shall be due on the first day of February 2023, and each month thereafter thru the last day of June 2023. Such Basic Rent shall be payable, without off-set or demand, on the first day of each calendar month beginning on the Commencement Date and continuing until the termination of this Lease pursuant to Section 3.1 of this Lease.

4.4 Security Deposit. Tenant has paid or will pay Landlord the amount of three thousand two hundred ten 30/100 dollars ($3,210.30) as refundable security for the full and faithful performance of each of the terms hereof by Tenant. Landlord shall not be required to keep this security deposit separate from its general funds and Tenant shall not be entitled to interest thereon. If Tenant defaults with respect to any provision of this Lease, including but not limited to the provisions relating to the payment of rent, Landlord may, but shall not be required to, use, apply or retain all or any part of this security deposit for the payment of any rent or any other sum in default, or for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or

damage which Landlord may suffer by reason of Tenant's default, including without limitation, costs and attorneys' fees incurred by Landlord to recover possession of the Premises upon a default by Tenant hereunder. If any portion of said deposit is so used or applied, Tenant shall, upon demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount and Tenant' s failure to do so shall constitute a default hereunder by Tenant.

4.5 Parking Facilities. Tenant and its' guests shall be entitled to the non-exclusive use of any on-site parking spaces as may be designated by Landlord. Tenant shall comply with all rules and regulations which Landlord may adopt from time to time for the operation and use of such parking facilities.

5. Utilities.

5.1 Utility Charges. Tenant shall be solely responsible for and promptly pay all charges for telephone, electric, alarm/security, cable/network, or any other utility used or consumed by it in the Premises. Tenant shall pay to Landlord its share of common/shared utilities, including, but not limited to electricity, water, gas, and trash removal, which are shared by all occupants of the Premises and paid by Landlord. Tenant shall further be responsible for any utility connection charges, or system development charges, from any and all utility companies or districts. **Tenant is responsible for making quarterly sewer payments.** If these charges are billed to the Landlord, then Tenant shall make payment in the full amount billed to Landlord within five (5) days after written demand from Landlord.

5.3 Maintenance. Tenant shall be responsible for the day-to-day maintenance and upkeep of the plumbing, heating, ventilation, evaporative cooling and air conditioning systems serving the Premises and for all other utility installations within the Premises.

6. Alterations.

6.1 Restriction on Alterations. Tenant may make no alteration, repairs, additions or improvements in, to or about the Premises (collectively, **"Tenant Alterations"**), without the prior written consent of Landlord, which consent shall not be unreasonably withheld, and Landlord may impose as a condition to such consent such requirements as Landlord, in its sole discretion, may deem necessary or desirable, including without limitation, (a) the right to approve the plans and specifications for any work, (b) the right to require insurance satisfactory to Landlord, (c) the right to require security for the full payment for and diligent and faithful performance of any work, (d) requirements as to the manner in which or the time or times at which work may be performed and (e) the right to approve the contractor or contractors to perform Tenant Alterations. If Landlord does not respond to Tenant's written request for Tenant Alterations within 30 days of receipt of the request, such request shall be deemed approved as submitted. All Tenant Alterations shall be compatible with the Building and completed in accordance with Landlord's requirements and all applicable rules, regulations and requirements of governmental authorities and insurance carriers. Landlord does not expressly or implicitly covenant or warrant that any plans or specifications submitted by Tenant are safe or that the same comply with any applicable laws, ordinances, codes, rules or regulations. Further, Tenant shall indemnify, protect, defend and hold Landlord, the Premises, and Landlord's managing

agent, if any, harmless from any loss, cost or expense, including attorneys' fees and costs, based upon or growing out of any alterations or construction undertaken by Tenant or incurred by Landlord as a result of any defects in design, materials or workmanship resulting from Tenant Alterations, except to the extent such defects are caused by Landlord, its agents. servants or employees. If requested by Landlord. Tenant shall provide Landlord with copies of all contracts, receipts, paid vouchers, and any other documentation in connection with the construction of such Tenant Alterations. Tenant shall promptly pay all costs incurred in connection with all Tenant Alterations and shall not permit the filing of any mechanic's lien or other lien in connection with any Tenant Alterations. If a mechanic's lien or other lien is filed against the Building or the Premises, Tenant shall discharge or cause to be discharged (by bond or otherwise) such lien within ten (10) days after Tenant receives notice of the filing thereof and shall not allow any such lien to be foreclosed upon. If a mechanic's lien or other lien is filed against the Building or the Premises and Tenant fails to timely discharge such lien, Landlord may, without waiving its rights and remedies based on such breach of Tenant and without releasing Tenant from any of its obligations, cause such liens to be released by any means it shall deem proper, including payment in satisfaction of the claim giving rise to such lien. Tenant shall pay to Landlord within thirty (30) days following notice by Landlord, any sum paid by Landlord to remove such liens, together with interest at Landlord's cost of money from the date of such payment by Landlord. Any increase in any tax, assessment or charge levied or assessed as a result of any Tenant Alterations shall be payable by Tenant in accordance with Article 8 hereof.

6.2 Removal and Surrender of Fixtures and Tenant Alterations. All Tenant Alterations and Tenant Work installed in the Premises, which are attached to, or built into the Premises, including without limitation, floor coverings, wall coverings, paneling, molding, doors, plumbing systems, electrical systems, mechanical systems, lighting systems, sound equipment, communication systems and outlets for the systems mentioned above and for all telephone, radio and television purposes, and any special flooring or ceiling installations, shall become the property of Landlord and shall be surrendered with the Premises, as a part thereof, at the end of the Term. Any articles of personal property including business and trade fixtures not attached to or built into, the Premises, machinery and equipment, free-standing cabinets, and movable partitions, which were installed by Tenant in the Premises at Tenant's sole expense and which were not installed in connection with a credit or allowance granted by Landlord or in replacement for an item which Tenant would not have been entitled to remove, shall be and remain the property of Tenant and may be removed by Tenant at any time during the Term as long as Tenant is not in default hereunder and provided that Tenant repairs any damage to the Premises, the Building and any other part of the Property caused by such removal.

7. Maintenance and Repairs.

7.1 Tenant's Obligations. Except for Landlord' s obligations specifically set forth in this Lease, Tenant shall, at Tenant's sole expense, keep the Premises and every part thereof clean and in good condition and repair and Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof. Subject to the provisions of Sections 9 and 10 below, Tenant shall reimburse Landlord for all repairs to the Building or any other portion of the Premises which are required as a result of any misuse or neglect of the same by Tenant or any of its officers, agents, employees. contractors, licensees or invitees while in or about the Premises, the Building or any other part of the Project. Notwithstanding the foregoing,

if Tenant fails to diligently complete any repairs for which Tenant is responsible under this Lease within thirty (30) days after notice from the Landlord, Landlord may, at Landlord's sole discretion, complete such repairs and Tenant shall promptly reimburse Landlord for any and all costs associated therewith.

7.2 Landlord's Obligations. Subject to Section 10 of this Lease, Landlord shall repair and maintain with reasonable diligence after written notice thereof from Tenant, defects in, and damage to, the Building's roof and structural systems installed by Landlord and serving or located on the Premises. If such maintenance and repair is required in part or in whole by the act, neglect, misuse, fault or omission of any duty of Tenant, its agents, employees, contractors, licensees or invitees, Tenant shall pay to Landlord the cost of such maintenance and repairs. Except as provided in Article 12 hereof, there shall be no abatement of rent with respect to, and Landlord shall not be liable for and Tenant shall hold Landlord harmless from, any injury to or interference with Tenant's business arising from any repairs, maintenance, alteration or improvement in or to any portion of the Premises or the Building, or in or to the fixtures (and any items in connection therewith), appurtenances and equipment therein. As a material inducement to Landlord entering into this Lease, except as otherwise provided by Nevada law, Tenant waives and releases its right to make repairs at Landlord's expense.

8. Tax on Tenant's Personal Property.

8.1 Personal Properly Taxes. At least ten (10) days prior to delinquency, Tenant shall pay all taxes levied or assessed upon Tenant' s equipment, furniture, fixtures and other personal property located in or about the Premises. If the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon Tenant's equipment, furniture, fixtures or other personal property, Tenant shall pay Landlord, upon written demand, the taxes so levied against Landlord, or the proportion thereof resulting from said increase in assessment.

9. Insurance; Waiver of Subrogation.

9.1 Liability Insurance. Tenant shall at all times during the Lease Term and at its own cost and expense procure and continue workers' compensation insurance and bodily injury liability and property damage liability insurance adequate to protect the Landlord against liability for injury to or death of any person or damage to property in connection with the use, operation or condition of the Premises. The limits of liability under the workers' compensation insurance policy shall be at least equal to the statutory requirements therefor and the limits of liability under the Employer's Liability Insurance policy carried by Tenant shall be at least Two Million Dollars ($2,000,000). The general liability insurance for non-employees and for damage to property at all times shall be in an amount of not less than Two Million Dollars ($2,000,000), Combined Single Limit, for injuries to persons and property damage. Not more frequently than once every year, if, in the opinion of Landlord's lender or of the insurance broker retained by Landlord, the amount of public liability and property damage insurance coverage at that time is not adequate, Tenant shall increase the insurance coverage as required by either Landlord's lender or Landlord's insurance broker.

9.2 Properly Insurance.

a. **Building, Improvements and Rental Value.** Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Building Improvements but not Tenant's personal property, fixtures, equipment or Tenant Alterations in an amount Landlord or Landlord's lender deems to be appropriate.

b. **Tenant's Property Insurance.** Tenant, at its sole cost and expense, shall at all times during the Term maintain in effect policies of insurance covering (i) all leasehold improvements (including any Tenant Alterations as may be made by Tenant pursuant to the provisions of Article 6 hereof), trade fixtures, merchandise and other personal property from time to time in, on or upon the Premises, in an amount not less than one hundred percent (100%) of their actual replacement cost during the term of this Lease, providing protection against any peril included within the classification "Fire and Extended Coverage," together with insurance against sprinkler damage (if applicable), vandalism and malicious mischief and water damage caused by plumbing leakage or failure and (ii) all plate glass doors and windows in the Premises. The proceeds of such insurance, so long as this Lease remains in effect, shall be used for the repair or replacement of the property so insured. Upon termination of this Lease due to any casualty, the proceeds of insurance shall be paid to Landlord and Tenant, as their interests appear in the insured property. The full replacement value of the items to be insured under this Section 9.2 shall be determined by the company issuing the insurance policy at the time the policy is initially obtained, and shall be increased as reasonably requested by Landlord from time to time.

9.3 Policy Requirements. All insurance required to be carried by Tenant hereunder shall be issued by responsible insurance companies, qualified to do business in the State of Nevada and reasonably acceptable to Landlord. Insurance companies rated A-1 or better by Best's Insurance Reports shall be deemed acceptable. Each policy shall have a deductible or deductibles, if any, which are no greater than those maintained by similarly situated tenants and which are reasonably acceptable to Landlord. Each policy shall name Landlord and Landlord's lender as additional insured, as their interests may appear, and copies of all policies together with certificates evidencing the existence and amounts of such insurance, shall be delivered to Landlord by Tenant at least thirty (30) days prior to Tenant's occupancy of any portion of the Premises. No such policy shall be cancelable except after thirty (30) days written notice to Landlord. Tenant shall, at least thirty (30) days prior to the expiration of any such policy, furnish Landlord with renewals or "binders" thereof, or Landlord may order such insurance and charge the cost thereof to Tenant, which amount shall be paid by Tenant upon demand. Any policy may be carried under so-called "blanket coverage" form of insurance policies, provided any such blanket policy specifically provides that the amount of insurance coverage required hereunder shall in no way be prejudiced by other losses covered by the policy. Neither the issuance of any such insurance policy nor the minimum limits specified in this Section 9.3 shall be deemed to limit or restrict in any way Tenant's liability arising under or out of this Lease.

9.4 Waiver of Subrogation. To the extent such waivers are obtainable from insurance carriers, Landlord and Tenant waive their respective right of recovery against the other for any direct or consequential damage to the property of the other including its interest in the Premises, the Building or any other portion of the Project by fire or other casualty to the extent such damage is insured against under a policy or policies of insurance. Each such insurance policy carried by either Landlord or Tenant shall include such a waiver of the insurer's rights of subrogation. Such waiver shall in no way be construed or interpreted to limit or restrict any indemnity or other waiver made by Tenant under the terms of this Lease.

10. Fire or Casualty.

10.1 Damage to Premises. In the event the Premises are damaged by fire or other casualty, Landlord shall repair such damage with reasonable diligence and in a manner consistent with the provisions of any Underlying Mortgage, as hereinafter defined. Tenant shall promptly pay to Landlord all insurance proceeds received by Tenant as a result of such damage so that Landlord can use such proceeds in the repair of such damage. If the Premises are damaged by fire or other casualty so that the repair of the Premises cannot, in Landlord's reasonable opinion, be completed within sixty (60) days after notice to Landlord of the occurrence of the damage, Landlord shall have the option, to be exercised by written notice to Tenant within thirty (30) days after Landlord receives notice of the occurrence of the damage, either i) to make such repairs within a reasonable time, in which event this Lease shall continue in full force and effect or (ii) to terminate this Lease as of a date not less than thirty (30) days or more than sixty (60) days after Landlord' s notice to Tenant.

10.2 Damage to Building. If the Building is totally destroyed or is so extensively damaged that the repair thereof cannot, in Landlord's reasonable opinion, be completed within one hundred (100) days after the occurrence of the damage or destruction, or if substantial alteration or reconstruction of the Building is required, in Landlord's reasonable opinion, as a result of the damage, then Landlord shall have the option, to be exercised by written notice to Tenant within thirty (30) days after the occurrence of the damage or destruction, either (a) to terminate this Lease as of the date not less than thirty (30) days or more than sixty (60) days after Landlord's notice to Tenant, or (b) to repair and rebuild the Building within a reasonable time, in which event this Lease shall continue in full force and effect.

10.3 Abatement: Termination. In the event any part of the Premises, as a result of damage by fire or other casualty, is rendered un-tenantable, for the conduct of Tenant's business, rent shall be reduced and/or abated in proportion to the part of the Premises which is so rendered un-tenantable until the damaged portion of the Premises have been made tenantable for the conduct of Tenant's business or until this Lease expires or terminates, whichever occurs first; provided that, (a) there shall be no abatement of rent with respect to any portion of the Premises which is rendered unusable for a period of five (5) days or less, (b) there shall be no abatement of rent if Landlord provides other space in the Building or the Project to Tenant which is reasonably suited for the temporary conduct of Tenant's business, (c) there shall be no abatement of rent whatsoever with respect to any damage caused in whole or in part by the negligence or willful act of Tenant, its agents, employees, contractors, licensees or invitees. In the event Landlord terminates this Lease pursuant to the terms of Sections 10.1 and 10.2, this Lease and the estate and interest of the Tenant in the Premises shall terminate and expire on the date specified in Landlord's notice of termination and the rent payable hereunder shall be pro rated as of such date, subject to rent abatement, if any, to the extent provided above.

10.4 Limitations. Subject to Section 9.4 hereof, nothing contained in this Article 10 shall relieve, discharge or any way affect Tenant' s liability to Landlord in connection with any damage or destruction to the Premises, the Building or any other portion of the Project arising out of the negligent or willful acts or omissions of Tenant, its agents, employees, contractors, licensees and invitees. Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, the Building or

other portions of the Project as a result of any damage from fire or other casualty. Furthermore, in the event of such damage from fire or other casualty, Landlord shall have no obligation to repair any equipment, furniture, fixtures, ceilings, carpets, tile or other floor coverings, partitions, or any personal property (collectively, "Personal Property") installed in or about the Premises by Landlord or Tenant unless Landlord has received insurance proceeds which insurance proceeds are specifically designated as payment for Personal Property.

11. Eminent Domain.

11.1 Taking. In case the whole of the Premises, or such part thereof as shall substantially interfere with Tenant's use and occupancy thereof, shall be taken by any lawful power or authority by exercise of the right of eminent domain, or sold to prevent such taking, within sixty (60) days of receipt of notice of such taking, either Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to said authority. If such portion of the Building or Project is so taken or sold so as to require, in the opinion of Landlord, a substantial alteration or reconstruction of the remaining portions thereof, or which renders the Building or Project economically unviable for its use as presently intended, or requires cancellation of substantially all tenant leases in the Building, this Lease may be terminated by Landlord, as of the date of the vesting of title under such taking or sale, by written notice to Tenant within sixty (60) days following notice to Landlord of the date on which said vesting will occur. Except as provided herein, Tenant shall not because of such taking assert any claim against Landlord or the taking authority for any compensation because of such taking, and Landlord shall be entitled to receive the entire amount of any award without deduction for any estate or interest of Tenant. In the event, the amount of property or the type of estate taken shall not substantially interfere with Tenant' s use of the Premises, Landlord shall be entitled to the entire amount of the award without deduction for any estate or interest of Tenant. In such event, Landlord shall promptly proceed to restore the Premises to substantially their condition prior to such partial taking, and the rent shall be abated in proportion to the time during which, and to the part of the Premises of which, Tenant shall be so deprived on account of such taking and restoration. Nothing contained in this Article 11 shall be deemed to give Landlord any interest in, or prevent Tenant from seeking any award against the taking authority for, the taking of personal property and fixtures belonging to Tenant or for relocation or business interruption expenses recoverable from the taking authority. Nothing in this paragraph shall prohibit Tenant from making a claim on its behalf against any public authority for damages Tenant incurs as a result of a taking or exercise of the right of eminent domain.

11.2 Temporary Taking. If all or any portion of the Premises are condemned or otherwise taken for public or quasi-public use for a limited period of time, this Lease shall remain in full force and effect and Tenant shall continue to perform all of the terms, conditions and covenants of this Lease, including without limitation, the payment of Basic Rent and all other amounts required hereunder. Tenant shall be entitled to receive the entire award made in connection with any other temporary condemnation or other taking attributable to any period within the Term. Landlord shall be entitled to the entire award for any such temporary condemnation or other taking which relates to a period after the expiration of the Term or which is allocable to the cost of restoration of the Premises. If any such temporary condemnation or other taking terminates prior to the expiration of the Term, Tenant shall restore the Premises as nearly as possible to the condition prior to the condemnation or other taking, at Tenant's sole cost and expense; provided

that, Tenant shall receive the portion of the award attributable to such restoration.

12. Assignment and Subletting.

12.1 General Prohibition. Tenant acknowledges that the economic concessions and rental rates set forth in this Lease were negotiated by Landlord and Tenant in consideration of, and would not have been granted by Landlord but for, the specific nature of the leasehold interest granted to Tenant hereunder, as such interest is limited and defined by various provisions throughout this Lease, including, but not limited to, the provisions of this Article 12 which define and limit the transferability of such leasehold interest. Tenant further acknowledges and agrees that the leasehold estate granted to Tenant hereunder is not a transferable interest in property, and Landlord hereby reserves the right to receive any increased rental value of the Premises during the Term as the same may be realized by any transfer of said estate, except to the extent Tenant is specifically granted the right to transfer all or part of its leasehold and to retain all or part of the increased rental value thereof pursuant to the provisions of this Article 12. Tenant shall not directly or indirectly, voluntarily or involuntarily assign, mortgage or otherwise encumber all or any portion of its interest in this Lease or in the Premises (collectively, "Assignment") or permit the Premises to be occupied by anyone other than Tenant or Tenant's employees or sublet the Premises (collectively. "Sublease") or any portion thereof without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld subject to the provisions of Section 12.2 hereunder and any such attempted assignment, subletting, mortgage or other encumbrance without such consent shall be null and void and of no effect. Notwithstanding the foregoing, if Tenant is or has been at any time in default under any of the terms of this Lease, Tenant may not assign, transfer or sublet the Premises in whole or in part.

12.2 Notice of Intent to Assign or Sublet. If Tenant desires at any time to enter into an Assignment or to Sublease the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord; (i) the name of the proposed assignee, subtenant transferee or occupant; (ii) the nature of the proposed Transferee's business to be carried on in the Premises; (iii) the terms and provisions of the proposed Sublease or Assignment; and (iv) such financial information as Landlord may reasonably request concerning the proposed Transferee. In the event the assignee or sub-lessee is not engaged in the same use or does not have equal or greater financial net worth and Tenant, Landlord shall have the right to reject the Sublease or Assignment which rejection shall be deemed reasonable.

12.3 No Release of Tenant's Obligations. No Assignment or Sublease shall relieve Tenant of its obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be consent to any Assignment or Sublease. Consent to one Sublease or Assignment shall not be deemed to constitute consent to any subsequent Sublease or Assignment.

12.4 Transfer is Assignment. If Tenant is a corporation or is a limited liability company or partnership, the issuance of any additional stock and/or the sale, transfer, assignment or hypothecation of any stock or interest in such corporation, LLC or partnership in the aggregate in excess of twenty-five percent (25%) shall be deemed an Assignment hereunder. Tenant agrees to promptly pay as Additional Rent Landlord's reasonable costs and attorneys' fees, not to

exceed Five Hundred Dollars ($500.00) per occurrence, incurred in connection with the processing and documentation of any requested Assignment or Sublease.

12.5 Assumption of Obligations. Each Transferee, other than Landlord, shall assume, as provided in this Section 12.5, all obligations of Tenant under this Lease and shall be and remain liable jointly and severally with Tenant for the payment of the rent, and for the performance of all of the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the term of this Lease; provided, however, that the Transferee shall be liable to Landlord for rent only in the amount set forth in the Assignment or Sublease. No Assignment shall be binding on Landlord unless the Transferee or Tenant shall deliver to Landlord a counterpart of the Assignment and an instrument in recordable form which contains a covenant of assumption by the Transferee satisfactory in substance and form to Landlord consistent with the requirements of this Section 12.5, but the failure or refusal of the Transferee to execute such instrument of assumption shall not release or discharge the Transferee from its liability as set forth above.

13. Landlord's Reserved Rights.

13.1 Right of Entry. Landlord and its agents and representatives shall have the right, at all reasonable times, upon twenty-four (24) hours written notice, except in the case of an emergency, in which event notice shall be waived, to enter the Premises for purposes of inspection, to post notices of non-responsibility, to protect the interest of Landlord in the Premises and any other services to be provided by Landlord hereunder, to perform all required or permitted work therein, including the erection of scaffolding, props and other mechanical devices for the purpose of making alterations, repairs or additions to the Premises or the Building which are provided for in this Lease or required by law. Landlord shall have the further right at any time to perform any work set forth in Section 13.2 of this Lease. Landlord and its agents and representatives shall also have the right during normal business hours to show the Premises to prospective tenants (during the last six (6) months of this Lease), lessors of superior leases, mortgagees, prospective mortgagees or prospective purchasers of the Building. No such entry shall be construed under any circumstances as a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction of Tenant and Tenant hereby waives any claim against Landlord or its agents or representatives for damages for any injury or inconvenience to or interference with, Tenant' s business or quiet enjoyment of the Premises.

13.2 Building and Common Areas. Provided Landlord does not unreasonably, obstruct or interfere with Tenant's use, Landlord may: (a) install, repair, replace or relocate pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Premises or the rest of the Building; (b) repair, renovate, alter, expand or improve the Building; (c) make changes to the common areas, including, without limitation, changes in the location, size, shape and number of street entrances, driveways, ramps, entrances, exits, parking spaces, parking areas, loading and unloading areas, halls, passages, stairways and other means of ingress and egress, direction of traffic, landscaped areas and walkways; (d) close temporarily any of the common areas for maintenance purposes as long as reasonable access to the Premises remains available; (e) designate other land outside the boundaries of the Building to be a part of the common areas; (f) add additional buildings and improvements to the common areas; (g) use

the common areas while engaged in making additional improvements, repairs or alterations to the Building, or any portion thereof; and (h) do and perform such other acts and make such other changes in, to or with respect to the common areas and Building and other portions of the Project as Landlord may deem appropriate, all at Landlord's expense which shall be passed through to Tenant as an Operating Expense, except for capital expenditures for additional buildings allowed in (f) which shall remain the sole responsibility of Landlord.

13.3 Incorporation of Other Improvements. In the event Landlord (a) is the owner of any or all of the Other Improvements and the property on which they are located, or (b) conveys the Project to the owner of the Other Improvements or to any other person or entity which will become the owner of both the Project and the Other Improvements, Landlord, or its successors or assigns, shall have the right, but not the obligation (unless required to comply with zoning or other governmental requirements), to incorporate the Other Improvements into the Project and to provide for the common management, operation, maintenance and repair of the Project and the Other Improvements. In the event the Other Improvements are so incorporated into the Project, all references to the Project contained in this Lease shall be deemed and construed to include the Other Improvements.

14. Indemnification and Limitation on Liability.

14.1 Indemnity by Tenant. Tenant shall indemnify, protect, defend and hold harmless, Landlord, its officers, directors, partners, agents and employees, and any affiliate of Landlord, including without limitation, any corporations or any other entities controlling, controlled by or under common control with Landlord, from and against any and all claims, suits, demands, liability , damages and expenses, including attorneys' fees and costs, arising from or in connection with Tenant's use or alteration of the Premises or the conduct of its business or from any activity performed or permitted by Tenant in or about the Premises, the Building or any part of the Project during the Term or prior to the Commencement Date if Tenant has been provided access to the Premises, the Building or any part of the Project for any purpose, or arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from Tenant's use of the Building Services in excess of their capacity or arising from any other act, neglect, fault or omission of Tenant or any of its officers, agents, directors , contractors, employees, licensees or invitees. As a material part of the consideration to the Landlord for entering into this Lease, Tenant hereby assumes all risk of and releases, discharges and holds harmless Landlord from and against any and all liability to Tenant for damage to property or injury to persons in, upon or about the Premises from any cause whatsoever except that which is caused by the gross negligence of Landlord.

14.2 Limitation on Landlord's Liability. In no event shall Landlord be liable to Tenant for any injury to any person in or about the Premises or damage to the Premises or for any loss, damage or injury to any property of Tenant therein or by any malfunction of any utility or other equipment. installation or system, or by the rupture, leakage or overflow of any plumbing or other pipes, including without limitation, water, refrigeration lines, sprinklers, drains, drinking fountains or similar cause in, about or upon the Premises, the Building or any other portion of the Project unless such loss, damage or injury is caused by the gross negligence of Landlord. None of the shareholders, officers, employees, agents, partners or affiliates of Landlord shall be responsible for any of the liabilities, obligations or agreements of Landlord under this Lease.

15. Sale by Landlord. In the event of any sale or other transfer of Landlord's interest in the Building, other than a transfer for security purposes only, and except for all deposits made to Landlord, Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer.

16. Subordination.

16.1 Subordination. This Lease is subject and subordinate to all mortgages, trust deeds, ground leases, or other encumbrances (the "Underlying Mortgages") which may now or hereafter be executed affecting the Project and/or the Building and to all renewals, modifications, consolidations, replacements and extensions of any such Underlying Mortgages. This clause shall be self-operative and no further instrument of subordination need be required by any mortgagee, ground lessor or beneficiary, affecting any Underlying Mortgage in order to make such subordination effective. Tenant, however, shall execute promptly any certificate or document that Landlord may request to effectuate, evidence or confirm such subordination and failure to do so shall be a material breach of this Lease.

16.2 Attornment. If Landlord's interest in the Building is sold or conveyed upon the exercise of any remedy provided for in any Underlying Mortgage, or otherwise by operation of law; (a) this Lease will not be affected in any way, and Tenant will atone to and recognize the new owner as Tenant's Landlord under this Lease, and Tenant will confirm such atonement in writing within ten (10) days after request; and (b) the new owner shall not be (i) liable for any act or omission of Landlord under this Lease occurring prior to such sale or conveyance, (ii) subject to any offset, abatement or reduction of rent because of any default of Landlord under this Lease occurring prior to such sale or conveyance, and (iii) liable for the return of any security deposit paid by Tenant except to the extent that the security deposit has actually been paid to such person or entity.

16.3 Notice from Tenant. Tenant shall give written notice to the holder of any Underlying Mortgage whose name and address have been previously furnished to Tenant of any act or omission by Landlord which Tenant asserts as giving Tenant the right to terminate this Lease or to claim a partial or total eviction or any other right or remedy under this Lease or provided by law. Tenant further agrees that if Landlord shall have failed to cure any default within the time period provided for in this Lease, then the holder of any Underlying Mortgage shall have an additional sixty (60) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary if within such sixty (60) days such holder has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

17. Estoppel Certificates. Tenant shall at any time and from time to time upon not less than ten (10) business days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), the dates to which the Basic Rent and other charges have been

paid in advance, if any, stating whether or not to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge and containing any other information and certifications which reasonably may be requested by Landlord or the holder of any Underlying Mortgage. Any such statement delivered pursuant to this Article 17 may be relied upon by any prospective purchaser of the fee of the Building or the Project or any mortgagee, ground lessor or other like encumbrancer thereof or any assignee of any such encumbrancer upon the Building or the Project.

18. Surrender of Premises and Removal of Property.

18.1 No Merger. The voluntary or other surrender of this Lease by Tenant, a mutual cancellation or a termination hereof, shall not constitute a merger, and shall, at the option of Landlord, terminate all or any existing subleases or shall operate as an assignment to Landlord of any or all subleases affecting the Premises.

18.2 Surrender of Premises. Upon the expiration of the Term, or upon any earlier termination hereof, Tenant shall quit and surrender possession of the Premises to Landlord in as good order and condition as the Premises are now or hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises, all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitioning and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and all similar articles of any other persons claiming under Tenant unless Landlord exercises its option to have any subleases or sub-tenancies assigned to Landlord, and Tenant shall repair all damage to the Premises resulting from such removal.

18.3 Disposal of Property. In the event of the expiration of this Lease or other re-entry of the Premises by Landlord as provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the term of this Lease, or within forty-eight (48) hours after a termination by reason of Tenant's default, shall be considered abandoned and Landlord may remove any or all of such property and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account of, and at the expense and risk of, Tenant. If Tenant shall fail to pay the costs of storing any such property after it has been stored for a period of thirty (30) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such places as Landlord, in its sole discretion, may deem proper, without notice to or demand upon Tenant. In the event of such sale, Landlord shall apply the proceeds thereof, first, to the cost and expense of sale, including reasonable attorneys' fees; second, to the repayment of the cost of removal and storage; third, to the repayment of any other sums which may then or thereafter be due to Landlord from Tenant under any of the terms of this Lease; and fourth, the balance, if any, to Tenant.

18.4 Fixtures and Improvements. All fixtures, equipment. alterations, additions, improvements and/or appurtenances attached to or built into the Premises prior to or during the term hereof, as further described in Section 6.2 hereof, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the term of this Lease.

18.5 **Notice of Expiration of Term.** Tenant shall, at least six (6) months before the expiration of the Term, give written notice to Landlord of Tenant's intention to surrender the Premises upon the expiration of the Term or exercise its 'option to extend'. Nothing contained herein, however, shall be construed as an extension of the Term or as consent of Landlord to any holding over by Tenant in the event said notice is not given in a timely fashion.

19. Holding Over.

19.1 In the event Tenant holds over after the expiration of the Term, with or without the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and not a renewal hereof or an extension for any further term, and such month-to-month tenancy shall be subject to each and every term, covenant and agreement contained herein; provided, however, that Tenant shall pay as Basic Rent during any holding over period, an amount equal to the greater of one-hundred fifty percent (150%) of the fair market value rental rate of the Premises or two times the Basic Rent payable immediately preceding the expiration of the Term. Nothing in this Article 19 shall be construed as a consent by Landlord to any holding over by Tenant and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises upon the-expiration of the Term or upon the earlier termination hereof and to assert any remedy in law or equity to evict Tenant and/or collect damages in connection with such holding over.

20. Defaults and Remedies.

20.1 **Defaults by Tenant.** The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant. The failure by Tenant to pay the rent or make any other payment required to be made by Tenant hereunder as and when due where such failure continues for five (5) business days after notice thereof by Landlord to Tenant, provided however, that such notice shall be in lieu of and not in addition to any notice required under Nevada law.

a. The abandonment or vacation of the Premises by Tenant.

b. The failure by Tenant to observe or perform the provisions of Articles 2 and 6 where such failure continues and is not remedied within forty-eight (48) hours after notice thereof from Landlord to Tenant.

c. The failure by Tenant to provide estoppel certificates as herein provided.

d. The failure by Tenant to observe or perform any other provision of this Lease, including Rules and Regulations which may be adopted by Landlord where such failure continues for twenty (20) days after notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such twenty (20) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion.

e. Any action taken by or against Tenant pursuant to any statute pertaining to bankruptcy or insolvency or the reorganization of Tenant (unless, in the case of a petition filed against Tenant, the same is dismissed within thirty (30) days); the making by Tenant of any general assignment for the benefit of creditors; the appointment of a trustee or receiver to take possession of all or any portion of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution, or other

judicial seizure of all or any portion of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

f. Tenant shall fail to occupy the Premises within sixty (60) days after the Commencement Date.

g. In addition to the events constituting a default and breach of the Lease by Tenant as set forth herein, if within any twelve (12) month period during the term of the Lease Tenant shall have failed to perform any obligation required of Tenant hereunder, or has been in breach for any reason under the Lease more than two (2) times, and Landlord, because of any such failure and/or breach, shall have served upon Tenant within said twelve (12) month period two (2) or more notices of any such failure or breach, then any subsequent failure or breach shall be deemed a non-curable default, without requirement of notice or opportunity to cure, and Landlord shall be immediately entitled to exercise any and all rights, remedies and/or elections specified below otherwise available at law or in equity.

h. Tenant's failure to vacate and surrender the Premises as required by this Lease upon the expiration of the Term or termination of this Lease.

20.2 Landlord's Remedies. In the event of any such default by Tenant, then, in addition to any other remedies available to Landlord at law or in equity, Tenant shall repay to Landlord all free Base Rent (if any) and Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving Tenant five (5) days' written notice of such election to terminate. In the event Landlord shall elect to so terminate this Lease, Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) the worth at the time of award of any amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant' s failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

a. All "rent" (as defined in Section 4) shall be computed on the basis on the monthly amount thereof payable on the date of Tenant's default, as the same are to be adjusted thereafter as contemplated by this Lease. As used in paragraphs (i) and (ii) above, the "worth at the time of award" is computed by allowing interest in the per annum amount equal to the prime rate of interest or other equivalent reference rate from time to time announced by the Bank of America National Trust and Savings Association (the "Reference Rate") plus two percent (2%), but in no event in excess of the maximum interest rate permitted by law. As used in paragraph (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

b. In the event of any such default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property therefrom by summary proceedings or otherwise; such property may be removed and stored in a

public warehouse or elsewhere at the cost of and for the account of Tenant.

c. In the event of the vacation or abandonment of the Premises by Tenant, or in the event that Landlord elects to re-enter as provided in Paragraph (c) above or takes possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, and if Landlord does not elect to terminate this Lease, then Landlord may from time to time, without terminating this Lease, either recover all rent as it becomes due or re-let the Premises or any part thereof for such term or terms and at such rent and upon such other terms and conditions as Landlord, in its sole discretion may deem advisable, with the right to make alterations and repairs to the Premises. If Landlord does not terminate this Lease and if Tenant requests Landlord's consent to an Assignment of this Lease or a Sublease of the Premises at such time as Tenant is in default, Landlord may not unreasonably withhold its consent to such Assignment or Sublease.

d. In the event that Landlord shall elect to so re-let as provided in Paragraph (d) above, then rentals received by Landlord from such re-letting shall be applied: First, to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of rent due and unpaid hereunder; and the remainder, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of rent hereunder, be less than the rent payable during that month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any and all reasonable costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

20.3 Se-Entry Not Termination. No re-entry or taking possession of the Premises by Landlord pursuant to this Article 20 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof shall be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any default of Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such default.

20.4 Definition of Tenant. As used in this Article 20 and in Article 21, the term **"Tenant"** shall be deemed to include all persons or entities named as Tenant under this Lease, or each and every one of them. If any of the obligations of Tenant hereunder is guaranteed by another person or entity, the term **"Tenant"** shall be deemed to include all of such guarantors and any one or more of such guarantors. If this Lease has been assigned, the term **"Tenant, "** as used in this Article 20 and in Article 21 shall be deemed to include both the assignee and the assignor.

21. Bankruptcy.

21.1 If, at any time prior to the Commencement Date, any action is taken by or against Tenant in any court pursuant to any statute pertaining to bankruptcy or insolvency or the reorganization of Tenant, Tenant makes any general assignment for the benefit of creditors, a trustee or receiver is appointed to take possession of substantially all of Tenant's assets or of Tenant' s interest in this Lease, or there is an attachment, execution or other judicial seizure of substantially all of Tenant's assets or of Tenant's interest in this Lease, then this Lease shall ipso facto be canceled and terminated and no further force or effect. In such event, neither Tenant nor any person

claiming through or under Tenant or by virtue of any statute or of any order of any court shall be entitled to possession of the Premises or any interest in this Lease and Landlord shall, in addition to any other rights and remedies under this Lease, be entitled to retain any rent, security deposit or other monies received by Landlord from Tenant as liquidated damages.

22. Interest on Tenant's Obligations: Late Charges.

22.1 Interest. Any amount due from Tenant to Landlord which is not paid when due shall bear interest at the lesser of two percent (2%) or the maximum rate per annum which Landlord is permitted by law to charge, from the date such payment is due until paid, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease.

22.2 Late Charge. In the event Tenant is more than five (5) days late in paying any installment of rent due under this Lease, Tenant shall pay Landlord a late charge equal to five percent (5%) of the delinquent installment of rent plus a fee of Ten Dollars ($10.00) per day until such installment of rent is paid. The parties agree that the amount of such late charge represents a reasonable estimate of the cost and expense that would be incurred by Landlord in processing each delinquent payment of rent by Tenant and that such late charge shall be paid to Landlord as liquidated damages for each delinquent payment, but the payment of such late charge shall not excuse or cure any default by Tenant under this Lease. The parties further agree that the payment of late charges and the payment of interest provided for in Section 22.1 above are distinct and separate from one another in that the payment of interest is to compensate Landlord for the use of Landlord's money by Tenant, while the payment of a late charge is to compensate Landlord for the additional administrative expense incurred by Landlord in handling and processing delinquent payments.

23. Quiet Enjoyment. Tenant, upon the paying of all rent hereunder and performing each of the covenants, agreements and conditions of this Lease required to be performed by Tenant, shall lawfully and quietly hold, occupy and enjoy the Premises during the Term without hindrance or molestation of anyone lawfully claiming by, through or under Landlord, subject, however, to the provisions set forth in this Lease.

24. Examination of Lease. The submission of this instrument for examination or signature by Tenant, Tenant's agents or attorneys, does not constitute a reservation of, or an option-to-lease, and this instrument shall not be effective or binding as a lease or otherwise until its execution and delivery by both Landlord and Tenant.

25. Brokers. Tenant warrants that it has not had any contact or dealings with any person or real estate broker which would give rise to the payment of any fee or brokerage commission, in connection with this Lease, and Tenant shall indemnify, hold harmless and defend Landlord from and against any liability with respect to any fee or brokerage commission arising out of any act or omission of Tenant

26. Rules and Regulations. The Rules and Regulations attached hereto as Exhibit **"A"** are hereby incorporated herein and made a part of this Lease. Tenant agrees to abide by and comply with each and every one of said Rules and Regulations and any amendments, modifications and/or additions thereto as may hereafter be adopted by Landlord for the safety, care, security,

good order and cleanliness of the Premises, the Building or any other portion of the Project. Landlord shall have the right to amend, modify or add to the Rules and Regulations in its sole discretion. Landlord shall not be liable to Tenant for any violation of any of the Rules and Regulations by any other tenant or for the failure of Landlord to enforce any of the Rules and Regulations.

27. Signage. Tenant shall have the right to place a sign identifying Tenant on the exterior of each entry door for the Premises. Tenant shall not have the right to any other signage which is visible from outside the Premises without the prior written consent of Landlord. Any signage identifying Tenant on the facade of the Building or on any Project monument shall be installed at Landlord' s reasonable discretion and at Tenant's sole cost and expense. Notwithstanding the foregoing, if Landlord erects a monument sign, Tenant shall have the right, if there is space on the monument sign to place its name on such monument sign, at Tenant's sole cost and expense.

28. General Provisions.

28.1 No Waiver. The waiver by Landlord of any breach of any term, provision, covenant or condition contained in this Lease, or the failure of Landlord to insist on the strict performance by Tenant, shall not be deemed to be a waiver of such term, provision, covenant or condition as to any subsequent breach thereof or of any other term, covenant or condition contained in this Lease. The acceptance of rents hereunder by Landlord shall not be deemed to be a waiver of any breach or default by Tenant of any term, provision, covenant or condition herein, regardless of Landlord's knowledge of such breach or default at the time of acceptance of rent.

28.2 Landlord's Right to Perform. All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole expense and without abatement of rent. If Tenant shall fail to observe and perform any covenant, condition, provision or agreement contained in this Lease or shall fail to perform any other act required to be performed by Tenant, Landlord may, upon notice to Tenant, without obligation, and without waiving or releasing Tenant from any default or obligations of Tenant, make any such payment or perform any such obligation on Tenant's part to be performed. All sums so paid by Landlord and all costs incurred by Landlord, including attorneys' fees, together with interest thereon in a per annum amount equal to two percent (2%), but not in excess of the maximum rate permitted by law, shall be payable to Landlord on demand and Tenant covenants to pay any such sums, and Landlord shall have (in addition to any other right or remedy hereunder) the same rights and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of rent.

28.3 Terms: Headings. The words *"Landlord"* and *"Tenant"* as used herein shall include the plural, as well as the singular. The words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there is more than one tenant, the obligations hereunder imposed upon Tenant shall be joint and several. The headings or titles of this Lease shall have no effect upon the construction or interpretation of any part hereof.

28.4 Entire Agreement. This instrument along with any exhibits and attachments or other documents affixed hereto, or referred to herein, constitutes the entire and exclusive agreement

between Landlord and Tenant with respect to the Premises and the estate and interest leased to Tenant hereunder. This instrument and said exhibits and attachments and other documents may be altered, amended, modified or revoked only by an instrument in writing signed by both Landlord and Tenant. Landlord and Tenant hereby agree that all prior or contemporaneous oral understandings, agreements or negotiations relative to the leasing of the Premises are merged into and revoked by this instrument.

28.5 Successors and Assigns. Subject to the provisions of Article 12 relating to Assignment and Sublease, this Lease is intended to and does bind the heirs, executors, administrators and assigns of any and all of the parties hereto.

28.6 Notices. All notices, consents, approvals, requests, demands and other communications (collectively **"Notices")** which Landlord or Tenant are required or desire to serve upon, or deliver to, the other shall be in writing and mailed postage prepaid by certified or registered mail, return receipt requested, or by personal delivery, to the appropriate address indicated below, or at such other place or places as either Landlord or Tenant may, from time to time, designate in a written notice given to the other. If the term **"**Tenant**"** in this Lease refers to more than one person or entity, Landlord shall be required to make service or delivery, as aforesaid, to any one of said persons or entities only. Notices shall be deemed sufficiently served or given at the time of personal delivery or three (3) days after the date of mailing thereof; provided, however, that any notice of default to Tenant under Article 20 shall be hand-delivered to the Premises. Any notice, request, communication or demand by Tenant to Landlord shall be addressed to the Landlord at: 1800 Industrial Rd, Suite 108G, Las Vegas. Nevada 89102. Any notice, request, communication or demand by Landlord to Tenant shall be addressed to:

CLS Nevada, Inc.
1718 Industrial Road &
1800 Industrial Road, Suite 100,102,160,180
Las Vegas, NV89102

Rejection or other refusal to accept a notice, request, communication or demand or the inability to deliver the same because of a changed address of which no notice was given shall be deemed to be receipt of the notice, request, communication or demand sent.

28.8 Severability. If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party hereunder, shall be held invalid or unenforceable to any extent, the remaining terms, conditions and covenants of this Lease shall not be affected thereby and each of said terms, covenants and conditions shall be valid and enforceable to the fullest extent permitted by law.

28.9 Time of Essence. Time is of the essence of this Lease and each provision hereof in

which time of performance is established.

28.10 Governing Laws. This Lease shall be governed by, interpreted and construed in accordance with the laws of the State of Nevada.

28.11 Attorneys' Fees. If any action or proceeding is brought by Landlord or Tenant to enforce its respective rights under this Lease, the unsuccessful party therein shall pay all costs incurred by the prevailing party therein, including reasonable attorneys' fees to be fixed by the court.

28.12 Force Majeure. Landlord shall not be liable for any failure to comply or delay in complying with its obligations hereunder if such failure or delay is due to acts of God, inability to obtain labor, strikes, lockouts, lack of materials, governmental restrictions, enemy actions, civil commotion, fire, unavoidable casualty or other similar causes beyond Landlord' s reasonable control (all of which events are herein referred to as force majeure events). It is expressly agreed that Landlord shall not be obliged to settle any strike to avoid a force majeure event from continuing.

29. Confidentiality. Tenant agrees to keep all of the terms and conditions of this Lease confidential and any violation of this provision shall be a default under this Lease.

IN WITNESS WHEREOF. Landlord and Tenant have executed this Lease as of the date set forth in the first paragraph above.

LANDLORD: 1800 Industrial, LLC

By: /s/ Charles Fox Date: 10/16/18
Charles Fox

Its: Managing Member

TENANT: CLS Nevada Inc.

Guarantor: CLS Holdings USA, Inc.

Date: 10/19/18

By: /s/ Ben Sillitoe
Ben Sillitoe, CEO

Its: CEO

EXHIBIT "A" RULES

AND REGULATIONS

(a) Sidewalks, parking areas, doorways, vestibules, halls, stairways, and similar areas shall not be obstructed nor shall refuse, furniture, boxes, or other items be placed therein by Tenant or its officers, agents, servants, and employees, or used for any purpose other than ingress and egress to and from the Premises, or for going from one part of the Building to another part of the Building. Canvassing, soliciting and peddling in the Building are prohibited.

(b) Tenant shall dispose of all trash in receptacles designated by Landlord.

(c) Plumbing, fixtures and appliances shall be used only for the purposes for which constructed and no unsuitable material shall be placed therein.

(d) No signs, directories, posters, advertisements, or notices shall be painted or affixed on or to any of the windows or doors or other parts of the Building, except in such color, size, and style, and in such places, as shall be first approved in writing by Landlord in its reasonable discretion.

(e) Tenant shall not do, or permit anything to be done in, on or about the Building, or bring or keep anything therein, that will in any way increase the rate of fire or other insurance on the Building or Premises.

(f) Corridor doors, when not in use, shall be kept closed.

(g) Tenant shall not cause or permit any improper noises in the Building, or allow any unpleasant odors to emanate from the Premises, or otherwise interfere, injure or annoy in any way other tenants, or persons having business with them.

(h) No animals shall be brought into or kept in or about the Building.

(i) When conditions are such that Tenant must dispose of crates, boxes, etc. on the sidewalk, it will be the responsibility of Tenant to dispose of same prior to 7:30 a.m. or after 5:30 p.m.

G) No machinery of any kind, other than ordinary office machines such as computers and photocopy machines and ordinary and necessary equipment for Tenant's business shall be operated on Premises without the prior written consent of Landlord, nor shall Tenant use or keep in the Building any inflammable or explosive fluid or substances or any illuminating materials, except candles.

(k) No motorcycles or similar vehicles will be allowed in any portion of the Building other than the parking areas.

(l) No nails, hooks, or screws (other than for the purpose of hanging normal office wall decorations) shall be driven into or inserted in any part of the Building except as approved by the Landlord.

(m) Landlord has the right to evacuate the Building in the event of an emergency or catastrophe.

(n) No food and/or beverages shall be distributed from Tenant's office (other than food and beverages intended for Tenant's employees and clients) without the prior written approval of Landlord.

(o) No additional locks shall be placed upon any doors without the prior written consent of Landlord. All necessary keys may be furnished to Landlord, and the same shall be surrendered upon termination of this Lease, and Tenant shall then give Landlord or its agent an explanation of the combination of all locks on the doors or vaults.

(p) Tenant will not locate furnishings or cabinets adjacent to mechanical or electrical access panels or over air conditioning outlets so as to prevent operating personnel from servicing such units as routine or emergency access may require. Cost of moving such furnishings for Landlord's access will be for Tenant's account.

(q) Tenant shall comply with parking rules and regulations as may be posted and distributed from time to time.

(r) No portion of the Building shall be used for the purpose of lodging rooms.

(s) Vending machines or dispensing machines of any kind will not be placed in the Premises by Tenant other than soft drink, snack and other similar vending machines for the use of Tenant's employees only.

(t) Prior written approval, which shall be at Landlord' s sole discretion, must be obtained for installation of window shades or any other window treatment of any kind whatsoever.

(u) Tenant shall not make any changes or alterations to any portion of the Building without Landlord' s prior written approval, which may be given on such conditions as Landlord may elect. Such work may be done by Landlord or by contractors and/or workers approved by Landlord. The provisions of this Paragraph shall not affect or be deemed to supersede in any way the provisions of the Lease with regard to the improvement and alteration of the Premises.

(v) Tenant shall provide plexi-glass or other pads for all chairs mounted on rollers or casters, where carpet exists.

(w) Landlord reserves the right to rescind any of these rules and make such other and further rules and regulations as in its reasonable business judgment shall from time to time be needful for the operation of the Building, which rules shall be binding upon each Tenant upon

delivery to such Tenant of notice thereof in writing.

Landlord: CF
initial

Tenant: _____
initial

EXHIBIT B

The granting of use of areas for new signage is contingent upon the signed lease of suite 100 and 1718 Industrial Road. All signage installed must be approved by the Landlord and the City of Las Vegas.

Landlord: CF
initial

Tenant: _____

LANDLORD: 1800 Industrial, LLC

By: /s/ Charles Fox Date: 10/16/18
Charles Fox

Its: MANAGING MEMBER

TENANT: CLS Nevada Inc.

Guarantor: CLS Holdings USA, Inc.

By: /s/ Ben Sillitoe
Ben Sillitoe, CEO

Its: CEO Date: 10/19/18

Exhibit 10.34

LEASE AGREEMENT

By and between

1800 Industrial, LLC
(LANDLORD)

AND

CLS Nevada Inc.
(TENANT)

PREMISES: **1718 Industrial Road**
Las Vegas, NV 89102

Lease Summary

Date: February 1, 2019

Landlord: 1800 Industrial, LLC

Tenant: CLS Nevada, Inc. or its assigns

Premises: 1718 Industrial Road
Las Vegas, NV 89102

Size of Premises: 1,400 square feet (1718 Industrial)

Term: Eighteen (18) months

Commencement of Rent: February 1, 2019, unless an earlier date is mutually agreed upon by both parties

Basic Rent:

Months 01 through 12	$1,794.90
Months 13 through 18	$1,866.70

After Renewal Commencing September 1, 2020

Months 01 through 12	$1,866.70
Months 13 through 24	$1,941.36
Months 25 through 34	$2,019.02

After Renewal Commencing July 1, 2023

Months 01 through 12	$2,099.78
Months 13 through 24	$2,183.77
Months 25 through 36	$2,271.12
Months 37 through 48	$2,361.97
Months 49 through 60	$2,456.45

CAM Rate: $0.23 per square foot (total of 1,400 sqft) in addition to the monthly base rent. Tenant is also responsible for making sewer payments; which must be paid quarterly.

Renewal Options: Three (3) months prior to end term of August 31,2020. Tenant must inform Landlord if they will be renewing the lease. On September 1, 2020, Tenant has one (1) option-to-renew for a 34-month term with rent starting at the then market rate for like spaces, but not less than rent for the 18th month of the original lease term. The renewal term is intended to coincide with the expiration/renewal of the lease for spaces 102,160, and 180. On July 1, 2023, Tenant has one (1) additional option-to-renew for a 60-month term with rent starting at the then market rate for like spaces, but not less than rent for the 34th month of the 1st renewal lease term.

Security Deposit: $1,794.90 equal to one month's rent

Landlord's Address: 1800 Industrial Road, Suite 108G
Las Vegas, NV 89102

Tenant's Address: 1800 Industrial Road, Suite 180
Las Vegas, NV 89102

THIS LEASE is made and entered into as of this _____ day of October, 2018, by and between **CLS Nevada. Inc. ("Tenant") and 1800 Industrial, LLC ("Landlord")**.

1. Lease of Premises.

1.1. Lease. Landlord hereby leases to Tenant, and Tenant hereby leases from Landlord, those certain premises (the **"Premises")** commonly described as 1718 Industrial Road Las Vegas, Nevada 89102, consisting of approximately one thousand four hundred square feet free-standing building. Tenant shall have the non-exclusive right to use the common areas and public areas in the Premises.

1.2. Modification of Premises. Tenant shall have the right to alter and modify the Premises. Landlord shall have the right to determine the architecture, design, appearance, construction, workmanship, materials and equipment with respect to the construction of the Building and all other portions of the Premises; provided, however, Tenant shall not materially alter the areas, floor elevations and other characteristics of the Premises without the express consent of Landlord, which consent shall not be unreasonably withheld or delayed.

2. Purpose.

2.1. Uses. The Premises shall be used only for any legal uses, as approved by the City of Las Vegas and State of Nevada.

2.2. Limitation on Uses. Tenant shall not use or occupy the Premises, or permit the use or occupancy of the Premises, in any manner or for any purpose which: (a) would violate any State of City law or regulation of any governmental authority, or the provisions of any applicable governmental permit or recorded document; (b) would adversely affect or render more expensive any fire or other insurance maintained by Landlord for the Building or any of its contents; (c) might impair or interfere with any of the services and systems of the Building, including without limitation, the Building's electrical, mechanical, fire and life safety, structural, plumbing, heating, ventilation and air conditioning systems (collectively, the **"Building Systems")** or the janitorial, security and building maintenance services (collectively, the **"Service Facilities");** (d) would injure or annoy, or obstruct or interfere with the rights of other tenants or occupants of the Building or impair the appearance of the Building or be prejudicial to the business or reputation of Landlord or the Premises; or (e) is not compatible with the existing use of the Building by other tenants. Further, Tenant's business machines and mechanical equipment which cause vibration or noise that may be transmitted to the Building structure or beyond the Premises shall be installed, maintained and used by Tenant so as to eliminate such vibration or noise. Tenant shall reimburse Landlord for any cost incurred by Landlord in enforcing the provisions of this Article 2 or as a result of Tenant's breach hereof (including, without limit at ion, any increase in insurance premiums resulting from Tenant's use).

2.3. Compliance with Permits. Tenant shall procure and maintain any license or permit

required for the lawful conduct of its business or other activity on the Premises, submit such license or permit for inspection by Landlord if so requested, and comply at all times with all terms and conditions thereof. The lease of the Premises shall be subject to all statutes, laws, ordinances and regulations applicable from time to time to the use, occupancy or possession of the Premises.

3. Term.

3.1. Commencement Date. The term of this Lease shall commence on February 1, 2019 or at an earlier date ("the Commencement Date"), should both parties mutually agree, and shall end eighteen (18) months from that date, or no later than the last day of the month following commencement. September 1, 2020 is when the first five-year option begins. Tenant must inform ninety (90) days prior to end of term date if they will be renewing. The payment of rent commences as set forth in Section 4.1 of this Lease, unless sooner terminated pursuant hereto.

4. Rent.

Basic Rent: The sum of $5,005.20 shall be due on the first day of February 2019, and each month thereafter thru the last day of January 2020.

When five-year renewal option commences: Adjustment after the first 12 months of rent agreement the rental amount will be adjusted as follows: Effective upon the first day of the month immediately following the 12-month expiration from date of commencement of the term, and upon the expiration of each 12 months thereafter, in accordance with a **fixed 4% annual increases.**

The sum of $1794.90 shall be due on the first day of February 1, 2020, and each month thereafter thru the last day of January 2021. The sum of $1,866.70 shall be due on the first day of February 2021, and each month thereafter thru the last day of January 2022. The sum of $1,941.36 shall be due on the first day of February 2022 and each month thereafter thru the last day of January 2023. The sum of $2,019.02 shall be due on the first day of February 2023, and each month thereafter thru the last day of June 2023. Such Basic Rent shall be payable, without off-set or demand, on the first day of each calendar month beginning on the Commencement Date and continuing until the termination of this Lease pursuant to Section 3.1 of this Lease.

4.4 Security Deposit. Tenant has paid or will pay Landlord the amount of one thousand seven hundred ninety four 90/100 dollars ($1,794.90) as refundable security for the full and faithful performance of each of the terms hereof by Tenant. Landlord shall not be required to keep this security deposit separate from its general funds and Tenant shall not be entitled to interest thereon. If Tenant defaults with respect to any provision of this Lease, including but not limited to the provisions relating to the payment of rent, Landlord may, but shall not be required to, use, apply or retain all or any part of this security deposit for the payment of any rent or any other sum in default, or for the payment of any other amount which Landlord may spend or become obligated to spend by reason of Tenant's default or to compensate Landlord for any other loss or

damage which Landlord may suffer by reason of Tenant's default, including without limitation, costs and attorneys' fees incurred by Landlord to recover possession of the Premises upon a default by Tenant hereunder. If any portion of said deposit is so used or applied, Tenant shall, upon demand therefor, deposit cash with Landlord in an amount sufficient to restore the security deposit to its original amount and Tenant's failure to do so shall constitute a default hereunder by Tenant.

4.5 Parking Facilities. Tenant and its' guests shall be entitled to the non-exclusive use of any on-site parking spaces as may be designated by Landlord. Tenant shall comply with all rules and regulations which Landlord may adopt from time to time for the operation and use of such parking facilities.

5. Utilities.

5.1. Utility Charges. Tenant shall be solely responsible for and promptly pay all charges for telephone, electric, alarm/security, cable/network, or any other utility used or consumed by it in the Premises. Tenant shall pay to Landlord its share of common/shared utilities, including, but not limited to electricity, water, gas, and trash removal, which are shared by all occupants of the Premises and paid by Landlord. Tenant shall further be responsible for any utility connection charges, or system development charges, from any and all utility companies or districts. **Tenant is responsible for making quarterly sewer payments.** If these charges are billed to the Landlord, then Tenant shall make payment in the full amount billed to Landlord within five (5) days after written demand from Landlord.

5.3. Maintenance. Tenant shall be responsible for the day-to-day maintenance and upkeep of the plumbing, heating, ventilation, evaporative cooling and air conditioning systems serving the Premises and for all other utility installations within the Premises.

6. Alterations.

6.1. Restriction on Alterations. Tenant may make no alteration, repairs, additions or improvements in, to or about the Premises (collectively, **"Tenant Alterations"),** without the prior written consent of Landlord, which consent shall not be unreasonably withheld, and Landlord may impose as a condition to such consent such requirements as Landlord, in its sole discretion, may deem necessary or desirable, including without limitation, (a) the right to approve the plans and specifications for any work, (b) the right to require insurance satisfactory to Landlord, (c) the right to require security for the full payment for and diligent and faithful performance of any work, (d) requirements as to the manner in which or the time or times at which work may be performed and (e) the right to approve the contractor or contractors to perform Tenant Alterations. If Landlord does not respond to Tenant's written request for Tenant Alterations within 30 days of receipt of the request, such request shall be deemed approved as submitted. All Tenant Alterations shall be compatible with the Building and completed in accordance with Landlord's requirements and all applicable rules, regulations and requirements of governmental authorities and insurance carriers. Landlord does not expressly or implicitly covenant or warrant that any plans or specifications submitted by Tenant are safe or that the same comply with any applicable laws, ordinances, codes, rules or regulations. Further, Tenant shall indemnify, protect, defend and hold Landlord, the Premises, and Landlord's managing

agent, if any, harmless from any loss, cost or expense, including attorneys' fees and costs, based upon or growing out of any alterations or construction undertaken by Tenant or incurred by Landlord as a result of any defects in design, materials or workmanship resulting from Tenant Alterations, except to the extent such defects are caused by Landlord, its agents, servants or employees. If requested by Landlord. Tenant shall provide Landlord with copies of all contracts, receipts, paid vouchers, and any other documentation in connection with the construction of such Tenant Alterations. Tenant shall promptly pay all costs incurred in connection with all Tenant Alterations and shall not permit the filing of any mechanic's lien or other lien in connection with any Tenant Alterations. If a mechanic's lien or other lien is filed against the Building or the Premises, Tenant shall discharge or cause to be discharged (by bond or otherwise) such lien within ten (10) days after Tenant receives notice of the filing thereof and shall not allow any such lien to be foreclosed upon. If a mechanic's lien or other lien is filed against the Building or the Premises and Tenant fails to timely discharge such lien. Landlord may, without waiving its rights and remedies based on such breach of Tenant and without releasing Tenant from any of its obligations, cause such liens to be released by any means it shall deem proper, including payment in satisfaction of the claim giving rise to such lien. Tenant shall pay to Landlord within thirty (30) days following notice by Landlord, any sum paid by Landlord to remove such liens, together with interest at Landlord's cost of money from the date of such payment by Landlord. Any increase in any tax, assessment or charge levied or assessed as a result of any Tenant Alterations shall be payable by Tenant in accordance with Article 8 hereof.

6.2. Removal and Surrender of Fixtures and Tenant Alterations. All Tenant Alterations and Tenant Work installed in the Premises, which are attached to, or built into the Premises, including without limitation, floor coverings, wall coverings, paneling, molding, doors, plumbing systems, electrical systems, mechanical systems, lighting systems, sound equipment, communication systems and outlets for the systems mentioned above and for all telephone, radio and television purposes, and any special flooring or ceiling installations, shall become the property of Landlord and shall be surrendered with the Premises, as a part thereof, at the end of the Term. Any articles of personal property including business and trade fixtures not attached to or built into, the Premises, machinery and equipment, free-standing cabinets, and movable partitions, which were installed by Tenant in the Premises at Tenant's sole expense and which were not installed in connection with a credit or allowance granted by Landlord or in replacement for an item which Tenant would not have been entitled to remove, shall be and remain the property of Tenant and may be removed by Tenant at any time during the Term as long as Tenant is not in default hereunder and provided that Tenant repairs any damage to the Premises, the Building and any other part of the Property caused by such removal.

7. Maintenance and Repairs.

7.1. Tenant's Obligations. Except for Landlord's obligations specifically set forth in this Lease, Tenant shall, at Tenant's sole expense, keep the Premises and every part thereof clean and in good condition and repair and Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises or any part thereof. Subject to the provisions of Sections 9 and 10 below, Tenant shall reimburse Landlord for all repairs to the Building or any other portion of the Premises which are required as a result of any misuse or neglect of the same by Tenant or any of its officers, agents, employees, contractors, licensees or invitees while in or about the Premises, the Building or any other part of the Project. Notwithstanding the foregoing,

if Tenant fails to diligently complete any repairs for which Tenant is responsible under this Lease within thirty (30) days after notice from the Landlord, Landlord may, at Landlord's sole discretion, complete such repairs and Tenant shall promptly reimburse Landlord for any and all costs associated therewith.

7.2. Landlord's Obligations. Subject to Section 10 of this Lease, Landlord shall repair and maintain with reasonable diligence after written notice thereof from Tenant, defects in, and damage to, the Building's roof and structural systems installed by Landlord and serving or located on the Premises. If such maintenance and repair is required in part or in whole by the act, neglect, misuse, fault or omission of any duty of Tenant, its agents, employees, contractors, licensees or invitees, Tenant shall pay to Landlord the cost of such maintenance and repairs. Except as provided in Article 12 hereof, there shall be no abatement of rent with respect to, and Landlord shall not be liable for and Tenant shall hold Landlord harmless from, any injury to or interference with Tenant's business arising from any repairs, maintenance, alteration or improvement in or to any portion of the Premises or the Building, or in or to the fixtures (and any items in connection therewith), appurtenances and equipment therein. As a material inducement to Landlord entering into this Lease, except as otherwise provided by Nevada law, Tenant waives and releases its right to make repairs at Landlord's expense.

8. Tax on Tenant's Personal Property.

8.1. Personal Property Taxes. At least ten (10) days prior to delinquency, Tenant shall pay all taxes levied or assessed upon Tenant's equipment, furniture, fixtures and other personal property located in or about the Premises. If the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon Tenant's equipment, furniture, fixtures or other personal property, Tenant shall pay Landlord, upon written demand, the taxes so levied against Landlord, or the proportion thereof resulting from said increase in assessment.

9. Insurance: Waiver of Subrogation.

9.1. Liability Insurance. Tenant shall at all times during the Lease Term and at its own cost and expense procure and continue workers' compensation insurance and bodily injury liability and property damage liability insurance adequate to protect the Landlord against liability for injury to or death of any person or damage to property in connection with the use, operation or condition of the Premises. The limits of liability under the workers' compensation insurance policy shall be at least equal to the statutory requirements therefor and the limits of liability under the Employer's Liability Insurance policy carried by Tenant shall be at least Two Million Dollars ($2,000,000). The general liability insurance for non-employees and for damage to property at all times shall be in an amount of not less than Two Million Dollars ($2,000,000), Combined Single Limit, for injuries to persons and property damage. Not more frequently than once every year, if, in the opinion of Landlord's lender or of the insurance broker retained by Landlord, the amount of public liability and property damage insurance coverage at that time is not adequate, Tenant shall increase the insurance coverage as required by either Landlord's lender or Landlord's insurance broker.

9.2. Property Insurance.

a. **Building. Improvements and Rental Value.** Landlord shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Building Improvements but not Tenant's personal property, fixtures, equipment or Tenant Alterations in an amount Landlord or Landlord's lender deems to be appropriate.

b. **Tenant's Property Insurance.** Tenant. at its sole cost and expense, shall at all times during the Term maintain in effect policies of insurance covering (i) all leasehold improvements (including any Tenant Alterations as may be made by Tenant pursuant to the provisions of Article 6 hereof), trade fixtures, merchandise and other personal property from time to time in, on or upon the Premises, in an amount not less than one hundred percent (100%) of their actual replacement cost during the term of this Lease, providing protection against any peril included within the classification "Fire and Extended Coverage," together with insurance against sprinkler damage (if applicable), vandalism and malicious mischief and water damage caused by plumbing leakage or failure and (ii) all plate glass doors and windows in the Premises. The proceeds of such insurance, so long as this Lease remains in effect, shall be used for the repair or replacement of the property so insured. Upon termination of this Lease due to any casualty, the proceeds of insurance shall be paid to Landlord and Tenant, as their interests appear in the insured property. The full replacement value of the items to be insured under this Section 9.2 shall be determined by the company issuing the insurance policy at the time the policy is initially obtained, and shall be increased as reasonably requested by Landlord from time to time.

9.3. **Policy Requirements.** All insurance required to be carried by Tenant hereunder shall be issued by responsible insurance companies, qualified to do business in the State of Nevada and reasonably acceptable to Landlord. Insurance companies rated A-1 or better by Best's Insurance Reports shall be deemed acceptable. Each policy shall have a deductible or deductibles, if any, which are no greater than those maintained by similarly situated tenants and which are reasonably acceptable to Landlord. Each policy shall name Landlord and Landlord's lender as additional insured, as their interests may appear, and copies of all policies together with certificates evidencing the existence and amounts of such insurance, shall be delivered to Landlord by Tenant at least thirty (30) days prior to Tenant's occupancy of any portion of the Premises. No such policy shall be cancelable except after thirty (30) days written notice to Landlord. Tenant shall, at least thirty (30) days prior to the expiration of any such policy, furnish Landlord with renewals or "binders" thereof or Landlord may order such insurance and charge the cost thereof to Tenant, which amount shall be paid by Tenant upon demand. Any policy may be carried under so-called "blanket coverage" form of insurance policies, provided any such blanket policy specifically provides that the amount of insurance coverage required hereunder shall in no way be prejudiced by other losses covered by the policy. Neither the issuance of any such insurance policy nor the minimum limits specified in this Section 9.3 shall be deemed to limit or restrict in any way Tenant's liability arising under or out of this Lease.

9.4. **Waiver of Subrogation.** To the extent such waivers are obtainable from insurance carriers, Landlord and Tenant waive their respective right of recovery against the other for any direct or consequential damage to the property of the other including its interest in the Premises, the Building or any other portion of the Project by fire or other casualty to the extent such damage is insured against under a policy or policies of insurance. Each such insurance policy carried by either Landlord or Tenant shall include such a waiver of the insurer's rights of subrogation. Such waiver shall in no way be construed or interpreted to limit or restrict any indemnity or other waiver made by Tenant under the terms of this Lease.

10. Fire or Casualty.

10.1. Damage to Premises. In the event the Premises are damaged by fire or other casualty, Landlord shall repair such damage with reasonable diligence and in a manner consistent with the provisions of any Underlying Mortgage, as hereinafter defined. Tenant shall promptly pay to Landlord all insurance proceeds received by Tenant as a result of such damage so that Landlord can use such proceeds in the repair of such damage. If the Premises are damaged by fire or other casualty so that the repair of the Premises cannot, in Landlord's reasonable opinion, be completed within sixty (60) days after notice to Landlord of the occurrence of the damage. Landlord shall have the option, to be exercised by written notice to Tenant within thirty (30) days after Landlord receives notice of the occurrence of the damage, either (i) to make such repairs within a reasonable time, in which event this Lease shall continue in full force and effect or (ii) to terminate this Lease as of a date not less than thirty (30) days or more than sixty (60) days after Landlord's notice to Tenant.

10.2. Damage to Building. If the Building is totally destroyed or is so extensively damaged that the repair thereof cannot, in Landlord's reasonable opinion, be completed within one hundred (100) days after the occurrence of the damage or destruction, or if substantial alteration or reconstruction of the Building is required, in Landlord's reasonable opinion, as a result of the damage, then Landlord shall have the option, to be exercised by written notice to Tenant within thirty (30) days after the occurrence of the damage or destruction, either (a) to terminate this Lease as of the date not less than thirty (30) days or more than sixty (60) days after Landlord's notice to Tenant, or (b) to repair and rebuild the Building within a reasonable time, in which event this Lease shall continue in full force and effect.

10.3. Abatement; Termination. In the event any part of the Premises, as a result of damage by fire or other casualty, is rendered un-tenantable, for the conduct of Tenant's business, rent shall be reduced and/or abated in proportion to the part of the Premises which is so rendered un-tenantable until the damaged portion of the Premises have been made tenantable for the conduct of Tenant's business or until this Lease expires or terminates, whichever occurs first; provided that, (a) there shall be no abatement of rent with respect to any portion of the Premises which is rendered unusable for a period of five (5) days or less, (b) there shall be no abatement of rent if Landlord provides other space in the Building or the Project to Tenant which is reasonably suited for the temporary conduct of Tenant's business, (c) there shall be no abatement of rent whatsoever with respect to any damage caused in whole or in part by the negligence or willful act of Tenant. its agents, employees, contractors, licensees or invitees. In the event Landlord terminates this Lease pursuant to the terms of Sections 10.1 and 10.2, this Lease and the estate and interest of the Tenant in the Premises shall terminate and expire on the date specified in Landlord's notice of termination and the rent payable hereunder shall be pro rated as of such date, subject to rent abatement, if any, to the extent provided above.

10.4. Limitations. Subject to Section 9.4 hereof, nothing contained in this Article 10 shall relieve, discharge or any way affect Tenant's liability to Landlord in connection with any damage or destruction to the Premises, the Building or any other portion of the Project arising out of the negligent or willful acts or omissions of Tenant, its agents, employees, contractors, licensees and invitees. Landlord shall not be liable for any loss of business, inconvenience or annoyance arising from any repair or restoration of any portion of the Premises, the Building or

other portions of the Project as a result of any damage from fire or other casualty. Furthermore, in the event of such damage from fire or other casualty, Landlord shall have no obligation to repair any equipment, furniture, fixtures, ceilings, carpets, tile or other floor coverings, partitions, or any personal property (collectively, "Personal Property") installed in or about the Premises by Landlord or Tenant unless Landlord has received insurance proceeds which insurance proceeds are specifically designated as payment for Personal Property.

11. Eminent Domain.

11.1. Taking. In case the whole of the Premises, or such part thereof as shall substantially interfere with Tenant's use and occupancy thereof, shall be taken by any lawful power or authority by exercise of the right of eminent domain, or sold to prevent such taking, within sixty (60) days of receipt of notice of such taking, either Tenant or Landlord may terminate this Lease effective as of the date possession is required to be surrendered to said authority. If such portion of the Building or Project is so taken or sold so as to require, in the opinion of Landlord, a substantial alteration or reconstruction of the remaining portions thereof, or which renders the Building or Project economically unviable for its use as presently intended, or requires cancellation of substantially all tenant leases in the Building, this Lease may be terminated by Landlord, as of the date of the vesting of title under such taking or sale, by written notice to Tenant within sixty (60) days following notice to Landlord of the date on which said vesting will occur. Except as provided herein, Tenant shall not because of such taking assert any claim against Landlord or the taking authority for any compensation because of such taking, and Landlord shall be entitled to receive the entire amount of any award without deduction for any estate or interest of Tenant. In the event, the amount of property or the type of estate taken shall not substantially interfere with Tenant's use of the Premises, Landlord shall be entitled to the entire amount of the award without deduction for any estate or interest of Tenant. In such event, Landlord shall promptly proceed to restore the Premises to substantially their condition prior to such partial taking, and the rent shall be abated in proportion to the time during which, and to the part of the Premises of which, Tenant shall be so deprived on account of such taking and restoration. Nothing contained in this Article 11 shall be deemed to give Landlord any interest in, or prevent Tenant from seeking any award against the taking authority for, the taking of personal property and fixtures belonging to Tenant or for relocation or business interruption expenses recoverable from the taking authority. Nothing in this paragraph shall prohibit Tenant from making a claim on its behalf against any public authority for damages Tenant incurs as a result of a taking or exercise of the right of eminent domain.

11.2. Temporary Taking. If all or any portion of the Premises are condemned or otherwise taken for public or quasi-public use for a limited period of time, this Lease shall remain in full force and effect and Tenant shall continue to perform all of the terms, conditions and covenants of this Lease, including without limitation, the payment of Basic Rent and all other amounts required hereunder. Tenant shall be entitled to receive the entire award made in connection with any other temporary condemnation or other taking attributable to any period within the Term. Landlord shall be entitled to the entire award for any such temporary condemnation or other taking which relates to a period after the expiration of the Term or which is allocable to the cost of restoration of the Premises. If any such temporary condemnation or other taking terminates prior to the expiration of the Term, Tenant shall restore the Premises as nearly as possible to the condition prior to the condemnation or other taking, at Tenant's sole cost and expense; provided

that, Tenant shall receive the portion of the award attributable to such restoration.

12. Assignment and Subletting.

12.1. General Prohibition. Tenant acknowledges that the economic concessions and rental rates set forth in this Lease were negotiated by Landlord and Tenant in consideration of, and would not have been granted by Landlord but for, the specific nature of the leasehold interest granted to Tenant hereunder, as such interest is limited and defined by various provisions throughout this Lease, including, but not limited to, the provisions of this Article 12 which define and limit the transferability of such leasehold interest. Tenant further acknowledges and agrees that the leasehold estate granted to Tenant hereunder is not a transferable interest in property, and Landlord hereby reserves the right to receive any increased rental value of the Premises during the Term as the same may be realized by any transfer of said estate, except to the extent Tenant is specifically granted the right to transfer all or part of its leasehold and to retain all or part of the increased rental value thereof pursuant to the provisions of this Article 12. Tenant shall not directly or indirectly, voluntarily or involuntarily assign, mortgage or otherwise encumber all or any portion of its interest in this Lease or in the Premises (collectively, **"Assignment"**) or permit the Premises to be occupied by anyone other than Tenant or Tenant's employees or sublet the Premises (collectively, **"Sublease"**), or any portion thereof without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld subject to the provisions of Section 12.2 hereunder and any such attempted assignment, subletting, mortgage or other encumbrance without such consent shall be null and void and of no effect. Notwithstanding the foregoing, if Tenant is or has been at any time in default under any of the terms of this Lease, Tenant may not assign, transfer or sublet the Premises in whole or in part.

12.2. Notice of Intent to Assign or Sublet. If Tenant desires at any time to enter into an Assignment or to Sublease the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord; (i) the name of the proposed assignee, subtenant transferee or occupant; (ii) the nature of the proposed Transferee's business to be carried on in the Premises; (iii) the terms and provisions of the proposed Sublease or Assignment; and (iv) such financial information as Landlord may reasonably request concerning the proposed Transferee. In the event the assignee or sub-lessee is not engaged in the same use or does not have equal or greater financial net worth and Tenant, Landlord shall have the right to reject the Sublease or Assignment which rejection shall be deemed reasonable.

12.3. No Release of Tenant's Obligations. No Assignment or Sublease shall relieve Tenant of its obligation to pay the rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be consent to any Assignment or Sublease. Consent to one Sublease or Assignment shall not be deemed to constitute consent to any subsequent Sublease or Assignment.

12.4. Transfer is Assignment. If Tenant is a corporation or is a limited liability company or partnership, the issuance of any additional stock and/or the sale, transfer, assignment or hypothecation of any stock or interest in such corporation, LLC or partnership in the aggregate in excess of twenty-five percent (25%) shall be deemed an Assignment hereunder. Tenant agrees to promptly pay as Additional Rent Landlord's reasonable costs and attorneys' fees, not to

exceed Five Hundred Dollars ($500.00) per occurrence, incurred in connection with the processing and documentation of any requested Assignment or Sublease.

12.5. **Assumption of Obligations.** Each Transferee, other than Landlord, shall assume, as provided in this Section 12.5, all obligations of Tenant under this Lease and shall be and remain liable jointly and severally with Tenant for the payment of the rent, and for the performance of all of the terms, covenants, conditions and agreements herein contained on Tenant's part to be performed for the term of this Lease; provided, however, that the Transferee shall be liable to Landlord for rent only in the amount set forth in the Assignment or Sublease. No Assignment shall he binding on Landlord unless the Transferee or Tenant shall deliver to Landlord a counterpart of the Assignment and an instrument in recordable form which contains a covenant of assumption by the Transferee satisfactory in substance and form to Landlord consistent with the requirements of this Section 12.5, but the failure or refusal of the Transferee to execute such instrument of assumption shall not release or discharge the Transferee from its liability as set forth above.

13. Landlord's Reserved Rights.

13.1. **Right of Entry.** Landlord and its agents and representatives shall have the right, at all reasonable times, upon twenty-four (24) hours written notice, except in the case of an emergency, in which event notice shall be waived, to enter the Premises for purposes of inspection. to post notices of non-responsibility, to protect the interest of Landlord in the Premises and any other services to be provided by Landlord hereunder, to perform all required or permitted work therein, including the erection of scaffolding, props and other mechanical devices for the purpose of making alterations, repairs or additions to the Premises or the Building which are provided for in this Lease or required by law. Landlord shall have the further right at any time to perform any work set forth in Section 13.2 of this Lease. Landlord and its agents and representatives shall also have the right during normal business hours to show the Premises to prospective tenants (during the last six (6) months of this Lease), lessors of superior leases, mortgagees, prospective mortgagees or prospective purchasers of the Building. No such entry shall be construed under any circumstances as a forcible or unlawful entry into, or a detainer of. the Premises, or an eviction of Tenant and Tenant hereby waives any claim against Landlord or its agents or representatives for damages for any injury or inconvenience to or interference with, Tenant's business or quiet enjoyment of the Premises.

13.2. **Building and Common Areas.** Provided Landlord does not unreasonably, obstruct or interfere with Tenant's use, Landlord may: (a) install, repair, replace or relocate pipes, ducts, conduits, wires and appurtenant meters and equipment for service to other parts of the Building above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Premises or the rest of the Building; (b) repair, renovate, alter, expand or improve the Building; (c) make changes to the common areas, including, without limitation, changes in the location, size, shape and number of street entrances. driveways, ramps, entrances, exits, parking spaces, parking areas, loading and unloading areas, halls, passages, stairways and other means of ingress and egress, direction of traffic, landscaped areas and walkways; (d) close temporarily any of the common areas for maintenance purposes as long as reasonable access to the Premises remains available; (e) designate other land outside the boundaries of the Building to be a part of the common areas; (f) add additional buildings and improvements to the common areas; (g) use

the common areas while engaged in making additional improvements, repairs or alterations to the Building, or any portion thereof; and (h) do and perform such other acts and make such other changes in, to or with respect to the common areas and Building and other portions of the Project as Landlord may deem appropriate, all at Landlord's expense which shall be passed through to Tenant as an Operating Expense, except for capital expenditures for additional buildings allowed in (f) which shall remain the sole responsibility of Landlord.

13.3. Incorporation of Other Improvements. In the event Landlord (a) is the owner of any or all of the Other Improvements and the property on which they are located, or (b) conveys the Project to the owner of the Other Improvements or to any other person or entity which will become the owner of both the Project and the Other Improvements, Landlord, or its successors or assigns. shall have the right, but not the obligation (unless required to comply with zoning or other governmental requirements), to incorporate the Other Improvements into the Project and to provide for the common management, operation, maintenance and repair of the Project and the Other Improvements. In the event the Other Improvements are so incorporated into the Project, all references to the Project contained in this Lease shall be deemed and construed to include the Other Improvements.

14. Indemnification and Limitation on Liability.

14.1. Indemnity by Tenant. Tenant shall indemnify, protect, defend and hold harmless, Landlord, its officers, directors, partners, agents and employees, and any affiliate of Landlord, including without limitation, any corporations or any other entities controlling, controlled by or under common control with Landlord, from and against any and all claims, suits, demands, liability, damages and expenses, including attorneys' fees and costs, arising from or in connection with Tenant's use or alteration of the Premises or the conduct of its business or from any activity performed or permitted by Tenant in or about the Premises, the Building or any part of the Project during the Term or prior to the Commencement Date if Tenant has been provided access to the Premises, the Building or any part of the Project for any purpose, or arising from any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from Tenant's use of the Building Services in excess of their capacity or arising from any other act, neglect, fault or omission of Tenant or any of its officers, agents, directors, contractors, employees, licensees or invitees. As a material part of the consideration to the Landlord for entering into this Lease, Tenant hereby assumes all risk of and releases, discharges and holds harmless Landlord from and against any and all liability to Tenant for damage to property or injury to persons in, upon or about the Premises from any cause whatsoever except that which is caused by the gross negligence of Landlord.

14.2. Limitation on Landlord's Liability. In no event shall Landlord be liable to Tenant for any injury to any person in or about the Premises or damage to the Premises or for any loss, damage or injury to any property of Tenant therein or by any malfunction of any utility or other equipment, installation or system, or by the rupture, leakage or overflow of any plumbing or other pipes, including without limitation. water, refrigeration lines, sprinklers, drains, drinking fountains or similar cause in, about or upon the Premises, the Building or any other portion of the Project unless such loss, damage or injury is caused by the gross negligence of Landlord. None of the shareholders, officers, employees, agents, partners or affiliates of Landlord shall be responsible for any of the liabilities, obligations or agreements of Landlord under this Lease.

15. **Sale by Landlord.** In the event of any sale or other transfer of Landlord's interest in the Building, other than a transfer for security purposes only, and except for all deposits made to Landlord, Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer.

16. Subordination.

16.1. **Subordination.** This Lease is subject and subordinate to all mortgages, trust deeds, ground leases, or other encumbrances (the "Underlying Mortgages") which may now or hereafter be executed affecting the Project and/or the Building and to all renewals, modifications, consolidations, replacements and extensions of any such Underlying Mortgages. This clause shall be self-operative and no further instrument of subordination need be required by any mortgagee, ground lessor or beneficiary, affecting any Underlying Mortgage in order to make such subordination effective. Tenant, however, shall execute promptly any certificate or document that Landlord may request to effectuate, evidence or confirm such subordination and failure to do so shall be a material breach of this Lease.

16.2. **Attornment.** If Landlord's interest in the Building is sold or conveyed upon the exercise of any remedy provided for in any Underlying Mortgage, or otherwise by operation of law; (a) this Lease will not be affected in any way, and Tenant will atone to and recognize the new owner as Tenant's Landlord under this Lease, and Tenant will confirm such atonement in writing within ten (10) days after request; and (b) the new owner shall not be (i) liable for any act or omission of Landlord under this Lease occurring prior to such sale or conveyance, (ii) subject to any offset, abatement or reduction of rent because of any default of Landlord under this Lease occurring prior to such sale or conveyance, and (iii) liable for the return of any security deposit paid by Tenant except to the extent that the security deposit has actually been paid to such person or entity.

16.3. **Notice from Tenant.** Tenant shall give written notice to the holder of any Underlying Mortgage whose name and address have been previously furnished to Tenant of any act or omission by Landlord which Tenant asserts as giving Tenant the right to terminate this Lease or to claim a partial or total eviction or any other right or remedy under this Lease or provided by law. Tenant further agrees that if Landlord shall have failed to cure any default within the time period provided for in this Lease, then the holder of any Underlying Mortgage shall have an additional sixty (60) days within which to cure such default or if such default cannot be cured within that time, then such additional time as may be necessary if within such sixty (60) days such holder has commenced and is diligently pursuing the remedies necessary to cure such default (including, but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated while such remedies are being so diligently pursued.

17. **Estoppel Certificates.** Tenant shall at any time and from time to time upon not less than ten (10) business days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying that this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), the dates to which the Basic Rent and other charges have been

paid in advance, if any, stating whether or not to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge and containing any other information and certifications which reasonably may be requested by Landlord or the holder of any Underlying Mortgage. Any such statement delivered pursuant to this Article 17 may be relied upon by any prospective purchaser of the fee of the Building or the Project or any mortgagee, ground lessor or other like encumbrancer thereof or any assignee of any such encumbrancer upon the Building or the Project.

18. Surrender of Premises and Removal of Property.

18.1. No Merger. The voluntary or other surrender of this Lease by Tenant, a mutual cancellation or a termination hereof, shall not constitute a merger, and shall, at the option of Landlord, terminate all or any existing subleases or shall operate as an assignment to Landlord of any or all subleases affecting the Premises.

18.2. Surrender of Premises. Upon the expiration of the Term, or upon any earlier termination hereof, Tenant shall quit and surrender possession of the Premises to Landlord in as good order and condition as the Premises are now or hereafter may be improved by Landlord or Tenant, reasonable wear and tear and repairs which are Landlord's obligation excepted, and shall, without expense to Landlord, remove or cause to be removed from the Premises, all debris and rubbish, all furniture, equipment, business and trade fixtures, free-standing cabinet work, movable partitioning and other articles of personal property owned by Tenant or installed or placed by Tenant at its expense in the Premises, and all similar articles of any other persons claiming under Tenant unless Landlord exercises its option to have any subleases or sub- tenancies assigned to Landlord, and Tenant shall repair all damage to the Premises resulting from such removal.

18.3. Disposal of Property. In the event of the expiration of this Lease or other re-entry of the Premises by Landlord as provided in this Lease, any property of Tenant not removed by Tenant upon the expiration of the term of this Lease, or within forty-eight (48) hours after a termination by reason of Tenant's default, shall be considered abandoned and Landlord may remove any or all of such property and dispose of the same in any manner or store the same in a public warehouse or elsewhere for the account of, and at the expense and risk of Tenant. If Tenant shall fail to pay the costs of storing any such property after it has been stored for a period of thirty (30) days or more, Landlord may sell any or all of such property at public or private sale, in such manner and at such places as Landlord, in its sole discretion, may deem proper, without notice to or demand upon Tenant. In the event of such sale. Landlord shall apply the proceeds thereof, first, to the cost and expense of sale, including reasonable attorneys' fees; second. to the repayment of the cost of removal and storage; third, to the repayment of any other sums which may then or thereafter be due to Landlord from Tenant under any of the terms of this Lease; and fourth, the balance, if any, to Tenant.

18.4. Fixtures and Improvements. All fixtures, equipment, alterations. additions. improvements and/or appurtenances attached to or built into the Premises prior to or during the term hereof, as further described in Section 6.2 hereof, shall be and remain part of the Premises and shall not be removed by Tenant at the end of the term of this Lease.

18.5. **Notice of Expiration of Term.** Tenant shall, at least six (6) months before the expiration of the Term, give written notice to Landlord of Tenant's intention to surrender the Premises upon the expiration of the Term or exercise its 'option to extend'. Nothing contained herein, however, shall be construed as an extension of the Term or as consent of Landlord to any holding over by Tenant in the event said notice is not given in a timely fashion.

19. Holding Over.

19.1. In the event Tenant holds over after the expiration of the Term, with or without the express or implied consent of Landlord, such tenancy shall be from month-to-month only, and not a renewal hereof or an extension for any further term, and such month-to-month tenancy shall be subject to each and every term, covenant and agreement contained herein; provided, however, that Tenant shall pay as Basic Rent during any holding over period, an amount equal to the greater of one-hundred fifty percent (150%) of the fair market value rental rate of the Premises or two times the Basic Rent payable immediately preceding the expiration of the Term. Nothing in this Article 19 shall be construed as a consent by Landlord to any holding over by Tenant and Landlord expressly reserves the right to require Tenant to surrender possession of the Premises upon the-expiration of the Term or upon the earlier termination hereof and to assert any remedy in law or equity to evict Tenant and/or collect damages in connection with such holding over.

20. Defaults and Remedies.

20.1. **Defaults by Tenant.** The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant. The failure by Tenant to pay the rent or make any other payment required to be made by Tenant hereunder as and when due where such failure continues for five (5) business days after notice thereof by Landlord to Tenant, provided however, that such notice shall be in lieu of and not in addition to any notice required under Nevada law.

a. The abandonment or vacation of the Premises by Tenant.

b. The failure by Tenant to observe or perform the provisions of Articles 2 and 6 where such failure continues and is not remedied within forty-eight (48) hours after notice thereof from Landlord to Tenant.

c. The failure by Tenant to provide estoppel certificates as herein provided.

d. The failure by Tenant to observe or perform any other provision of this Lease, including Rules and Regulations which may be adopted by Landlord where such failure continues for twenty (20) days after notice thereof by Landlord to Tenant; provided, however, that if the nature of such default is such that the same cannot reasonably be cured within such twenty (20) day period, Tenant shall not be deemed to be in default if Tenant shall within such period commence such cure and thereafter diligently prosecute the same to completion.

e. Any action taken by or against Tenant pursuant to any statute pertaining to bankruptcy or insolvency or the reorganization of Tenant (unless, in the case of a petition filed against Tenant, the same is dismissed within thirty (30) days); the making by Tenant of any general assignment for the benefit of creditors; the appointment of a trustee or receiver to take possession of all or any portion of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution, or other

judicial seizure of all or any portion of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged within thirty (30) days.

f. Tenant shall fail to occupy the Premises within sixty (60) days after the Commencement Date.

g. In addition to the events constituting a default and breach of the Lease by Tenant as set forth herein, if within any twelve (12) month period during the term of the Lease Tenant shall have failed to perform any obligation required of Tenant hereunder, or has been in breach for any reason under the Lease more than two (2) times, and Landlord, because of any such failure and/or breach, shall have served upon Tenant within said twelve (12) month period two (2) or more notices of any such failure or breach, then any subsequent failure or breach shall be deemed a non-curable default, without requirement of notice or opportunity to cure, and Landlord shall be immediately entitled to exercise any and all rights, remedies and/or elections specified below otherwise available at law or inequity.

h. Tenant's failure to vacate and surrender the Premises as required by this Lease upon the expiration of the Term or termination of this Lease.

20.2. **Landlord's Remedies.** In the event of any such default by Tenant, then, in addition to any other remedies available to Landlord at law or in equity, Tenant shall repay to Landlord all free Base Rent (if any) and Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder by giving Tenant five (5) days' written notice of such election to terminate. In the event Landlord shall elect to so terminate this Lease, Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid rent which has been earned at the time of such termination; plus

(ii) the worth at the time of award of any amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of the award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom; and

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

a. All "rent" (as defined in Section 4) shall be computed on the basis on the monthly amount thereof payable on the date of Tenant's default, as the same are to be adjusted thereafter as contemplated by this Lease. As used in paragraphs (i) and (ii) above, the "worth at the time of award" is computed by allowing interest in the per annum amount equal to the prime rate of interest or other equivalent reference rate from time to time announced by the Bank of America National Trust and Savings Association (the "Reference Rate") plus two percent (2%), but in no event in excess of the maximum interest rate permitted by law. As used in paragraph (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%).

b. In the event of any such default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property therefrom by summary proceedings or otherwise; such property may be removed and stored in a

public warehouse or elsewhere at the cost of and for the account of Tenant.

c. In the event of the vacation or abandonment of the Premises by Tenant, or in the event that Landlord elects to re-enter as provided in Paragraph (c) above or takes possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, and if Landlord does not elect to terminate this Lease, then Landlord may from time to time, without terminating this Lease, either recover all rent as it becomes due or re-let the Premises or any part thereof for such term or terms and at such rent and upon such other terms and conditions as Landlord, in its sole discretion, may deem advisable, with the right to make alterations and repairs to the Premises. If Landlord does not terminate this Lease and if Tenant requests Landlord's consent to an Assignment of this Lease or a Sublease of the Premises at such time as Tenant is in default, Landlord may not unreasonably withhold its consent to such Assignment or Sublease.

d. In the event that Landlord shall elect to so re-let as provided in Paragraph (d) above, then rentals received by Landlord from such re-letting shall be applied: First, to the payment of any indebtedness other than rent due hereunder from Tenant to Landlord; second, to the payment of any cost of such reletting; third, to the payment of the cost of any alterations and repairs to the Premises; fourth, to the payment of rent due and unpaid hereunder; and the remainder, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of rent hereunder, be less than the rent payable during that month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any and all reasonable costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

20.3. **Re-Entry Not Termination.** No re-entry or taking possession of the Premises by Landlord pursuant to this Article 20 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof shall be decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any default of Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such default.

20.4. **Definition of Tenant.** As used in this Article 20 and in Article 21, the term "Tenant" shall be deemed to include all persons or entities named as Tenant under this Lease, or each and every one of them. If any of the obligations of Tenant hereunder is guaranteed by another person or entity, the term "Tenant" shall be deemed to include all of such guarantors and any one or more of such guarantors. If this Lease has been assigned, the term "Tenant," as used in this Article 20 and in Article 21 shall be deemed to include both the assignee and the assignor.

21. Bankruptcy

21.1. If, at any time prior to the Commencement Date, any action is taken by or against Tenant in any court pursuant to any statute pertaining to bankruptcy or insolvency or the reorganization of Tenant, Tenant makes any general assignment for the benefit of creditors, a trustee or receiver is appointed to take possession of substantially all of Tenant's assets or of Tenant's interest in this Lease, or there is an attachment, execution or other judicial seizure of substantially all of Tenant's assets or of Tenant's interest in this Lease, then this Lease shall ipso facto be canceled and terminated and no further force or effect. In such event, neither Tenant nor any person

claiming through or under Tenant or by virtue of any statute or of any order of any court shall be entitled to possession of the Premises or any interest in this Lease and Landlord shall, in addition to any other rights and remedies under this Lease, be entitled to retain any rent, security deposit or other monies received by Landlord from Tenant as liquidated damages.

22. Interest on Tenant's Obligations; Late Charges.

22.1. Interest. Any amount due from Tenant to Landlord which is not paid when due shall bear interest at the lesser of two percent (2%) or the maximum rate per annum which Landlord is permitted by law to charge, from the date such payment is due until paid, but the payment of such interest shall not excuse or cure any default by Tenant under this Lease.

22.2. Late Charge. In the event Tenant is more than five (5) days late in paying any installment of rent due under this Lease, Tenant shall pay Landlord a late charge equal to five percent (5%) of the delinquent installment of rent plus a fee of Ten Dollars ($10.00) per day until such installment of rent is paid. The parties agree that the amount of such late charge represents a reasonable estimate of the cost and expense that would be incurred by Landlord in processing each delinquent payment of rent by Tenant and that such late charge shall be paid to Landlord as liquidated damages for each delinquent payment, but the payment of such late charge shall not excuse or cure any default by Tenant under this Lease. The parties further agree that the payment of late charges and the payment of interest provided for in Section 22.1 above are distinct and separate from one another in that the payment of interest is to compensate Landlord for the use of Landlord's money by Tenant, while the payment of a late charge is to compensate Landlord for the additional administrative expense incurred by Landlord in handling and processing delinquent payments.

23. Quiet Enjoyment. Tenant, upon the paying of all rent hereunder and performing each of the covenants, agreements and conditions of this Lease required to be performed by Tenant, shall lawfully and quietly hold, occupy and enjoy the Premises during the Term without hindrance or molestation of anyone lawfully claiming by, through or under Landlord, subject, however, to the provisions set forth in this Lease.

24. Examination of Lease. The submission of this instrument for examination or signature by Tenant, Tenant's agents or attorneys, does not constitute a reservation of, or an option-to-lease, and this instrument shall not be effective or binding as a lease or otherwise until its execution and delivery by both Landlord and Tenant.

25. Brokers. Tenant warrants that it has not had any contact or dealings with any person or real estate broker which would give rise to the payment of any fee or brokerage commission, in connection with this Lease, and Tenant shall indemnify, hold harmless and defend Landlord from and against any liability with respect to any fee or brokerage commission arising out of any act or omission of Tenant.

26. Rules and Regulations. The Rules and Regulations attached hereto as Exhibit "A" are hereby incorporated herein and made a part of this Lease. Tenant agrees to abide by and comply with each and every one of said Rules and Regulations and any amendments, modifications and/or additions thereto as may hereafter be adopted by Landlord for the safety, care, security,

good order and cleanliness of the Premises, the Building or any other portion of the Project. Landlord shall have the right to amend, modify or add to the Rules and Regulations in its sole discretion. Landlord shall not be liable to Tenant for any violation of any of the Rules and Regulations by any other tenant or for the failure of Landlord to enforce any of the Rules and Regulations.

27. Signage. Tenant shall have the right to place a sign identifying Tenant on the exterior of each entry door for the Premises. Tenant shall not have the right to any other signage which is visible from outside the Premises without the prior written consent of Landlord. Any signage identifying Tenant on the facade of the Building or on any Project monument shall be installed at Landlord's reasonable discretion and at Tenant's sole cost and expense. Notwithstanding the foregoing, if Landlord erects a monument sign, Tenant shall have the right, if there is space on the monument sign to place its name on such monument sign, at Tenant's sole cost and expense.

28. General Provisions.

28.1. No Waiver. The waiver by Landlord of any breach of any term, provision, covenant or condition contained in this Lease, or the failure of Landlord to insist on the strict performance by Tenant, shall not be deemed to be a waiver of such term, provision, covenant or condition as to any subsequent breach thereof or of any other term, covenant or condition contained in this Lease. The acceptance of rents hereunder by Landlord shall not be deemed to be a waiver of any breach or default by Tenant of any term, provision, covenant or condition herein, regardless of Landlord's knowledge of such breach or default at the time of acceptance of rent.

28.2. Landlord's Right to Perform. All covenants and agreements to be performed by Tenant under any of the terms of this Lease shall be performed by Tenant at Tenant's sole expense and without abatement of rent. If Tenant shall fail to observe and perform any covenant, condition, provision or agreement contained in this Lease or shall fail to perform any other act required to be performed by Tenant, Landlord may, upon notice to Tenant, without obligation, and without waiving or releasing Tenant from any default or obligations of Tenant, make any such payment or perform any such obligation on Tenant's part to be performed. All sums so paid by Landlord and all costs incurred by Landlord, including attorneys' fees, together with interest thereon in a per annum amount equal to two percent (2%), but not in excess of the maximum rate permitted by law, shall be payable to Landlord on demand and Tenant covenants to pay any such sums, and Landlord shall have (in addition to any other right or remedy hereunder) the same rights and remedies in the event of the non-payment thereof by Tenant as in the case of default by Tenant in the payment of rent.

28.3. Terms: Headings. The words *"Landlord"* and *"Tenant"* as used herein shall include the plural, as well as the singular. The words used in neuter gender include the masculine and feminine and words in the masculine or feminine gender include the neuter. If there is more than one tenant, the obligations hereunder imposed upon Tenant shall be joint and several. The headings or titles of this Lease shall have no effect upon the construction or interpretation of any part hereof.

28.4. Entire Agreement. This instrument along with any exhibits and attachments or other documents affixed hereto, or referred to herein, constitutes the entire and exclusive agreement

between Landlord and Tenant with respect to the Premises and the estate and interest leased to Tenant hereunder. This instrument and said exhibits and attachments and other documents may be altered, amended, modified or revoked only by an instrument in writing signed by both Landlord and Tenant. Landlord and Tenant hereby agree that all prior or contemporaneous oral understandings, agreements or negotiations relative to the leasing of the Premises are merged into and revoked by this instrument.

28.5. **Successors and Assigns.** Subject to the provisions of Article 12 relating to Assignment and Sublease, this Lease is intended to and does bind the heirs, executors, administrators and assigns of any and all of the parties hereto.

28.6. **Notices.** All notices, consents, approvals, requests, demands and other communications (collectively **"Notices")** which Landlord or Tenant are required or desire to serve upon, or deliver to, the other shall be in writing and mailed postage prepaid by certified or registered mail, return receipt requested, or by personal delivery, to the appropriate address indicated below, or at such other place or places as either Landlord or Tenant may, from time to time, designate in a written notice given to the other. If the term "Tenant" in this Lease refers to more than one person or entity, Landlord shall be required to make service or delivery, as aforesaid, to any one of said persons or entities only. Notices shall be deemed sufficiently served or given at the time of personal delivery or three (3) days after the date of mailing thereof; provided, however, that any notice of default to Tenant under Article 20 shall be hand-delivered to the Premises. Any notice, request, communication or demand by Tenant to Landlord shall be addressed to the Landlord at: 1800 Industrial Rd, Suite 108G, Las Vegas, Nevada 89102. Any notice, request, communication or demand by Landlord to Tenant shall be addressed to:

CLS Nevada, Inc.
1718 Industrial Road &
1800 Industrial Road, Suite 100, 102, 160, 180
Las Vegas, NV 89102

Rejection or other refusal to accept a notice, request, communication or demand or the inability to deliver the same because of a changed address of which no notice was given shall be deemed to be receipt of the notice, request, communication or demand sent.

28.8. **Severability.** If any term or provision of this Lease, the deletion of which would not adversely affect the receipt of any material benefit by either party hereunder, shall be held invalid or unenforceable to any extent, the remaining terms, conditions and covenants of this Lease shall not be affected thereby and each of said terms, covenants and conditions shall be valid and enforceable to the fullest extent permitted by law.

28.9. **Time of Essence.** Time is of the essence of this Lease and each provision hereof in

which time of performance is established.

28.10. **Governing Law.** This Lease shall be governed by, interpreted and construed in accordance with the laws of the State of Nevada.

28.11. **Attorneys' Fees.** If any action or proceeding is brought by Landlord or Tenant to enforce its respective rights under this Lease, the unsuccessful party therein shall pay all costs incurred by the prevailing party therein. including reasonable attorneys' fees to be fixed by the court.

28.12. **Force Majeure.** Landlord shall not be liable for any failure to comply or delay in complying with its obligations hereunder if such failure or delay is due to acts of God, inability to obtain labor, strikes, lockouts, lack of materials, governmental restrictions, enemy actions, civil commotion, fire, unavoidable casualty or other similar causes beyond. Landlord's reasonable control (all of which events are herein referred to as force majeure events). It is expressly agreed that Landlord shall not be obliged to settle any strike to avoid a force majeure event from continuing.

29. **Confidentiality.** Tenant agrees to keep all of the terms and conditions of this Lease confidential and any violation of this provision shall be a default under this Lease.

IN WITNESS WHEREOF, Landlord and Tenant have executed this Lease as of the date set forth in the first paragraph above.

LANDLORD: 1800 Industrial, LLC

By: /s/ Charles Fox Date: 10/16/18
Charles Fox

Its: Managing Member

TENANT: CLS Nevada, Inc.

Guarantor: CLS Holdings USA, Inc.

By: /s/ Ben Sillitoe Date: 10/19/18
Ben Sillitoe, CEO

Its: CEO

EXHIBIT "A" RULES

AND REGULATIONS

(a) Sidewalks, parking areas, doorways, vestibules, halls, stairways, and similar areas shall not be obstructed nor shall refuse, furniture, boxes, or other items be placed therein by Tenant or its officers, agents, servants, and employees, or used for any purpose other than ingress and egress to and from the Premises, or for going from one part of the Building to another part of the Building, Canvassing, soliciting and peddling in the Building are prohibited.

(b) Tenant shall dispose of all trash in receptacles designated by Landlord.

(c) Plumbing, fixtures and appliances shall be used only for the purposes for which constructed and no unsuitable material shall be placed therein.

(d) No signs, directories. posters, advertisements, or notices shall be painted or affixed on or to any of the windows or doors or other parts of the Building, except in such color, size, and style, and in such places, as shall be first approved in writing by Landlord in its reasonable discretion.

(e) Tenant shall not do, or permit anything to be done in, on or about the Building or bring or keep anything therein, that will in any way increase the rate of fire or other insurance on the Building or Premises.

(f) Corridor doors, when not in use, shall be kept closed.

(g) Tenant shall not cause or permit any improper noises in the Building, or allow any unpleasant odors to emanate from the Premises, or otherwise interfere, injure or annoy in any way other tenants, or persons having business with them.

(h) No animals shall be brought into or kept in or about the Building.

(i) When conditions are such that Tenant must dispose of crates, boxes, etc. on the sidewalk, it will be the responsibility of Tenant to dispose of same prior to 7:30 a.m. or after 5:30 p.m.

G) No machinery of any kind, other than ordinary office machines such as computers and photocopy machines and ordinary and necessary equipment for Tenant's business shall be operated on Premises without the prior written consent of Landlord, nor shall Tenant use or keep in the Building any inflammable or explosive fluid or substances or any illuminating materials, except candles.

(k) No motorcycles or similar vehicles will be allowed in any portion of the Building other than the parking areas.

(l) No nails, hooks, or screws (other than for the purpose of hanging normal office wall decorations) shall be driven into or inserted in any part of the Building except as approved by the Landlord.

(m) Landlord has the right to evacuate the Building in the event of an emergency or catastrophe.

(n) No food and/or beverages shall be distributed from Tenant's office (other than food and beverages intended for Tenant's employees and clients) without the prior written approval of Landlord.

(o) No additional locks shall be placed upon any doors without the prior written consent of Landlord. All necessary keys may be furnished to Landlord, and the same shall be surrendered upon termination of this Lease, and Tenant shall then give Landlord or its agent an explanation of the combination of all locks on the doors or vaults.

(p) Tenant will not locate furnishings or cabinets adjacent to mechanical or electrical access panels or over air conditioning outlets so as to prevent operating personnel from servicing such units as routine or emergency access may require. Cost of moving such furnishings for Landlord's access will be for Tenant's account.

(q) Tenant shall comply with parking rules and regulations as may be posted and distributed from time to time.

(r) No portion of the Building shall be used for the purpose of lodging rooms.

(s) Vending machines or dispensing machines of any kind will not be placed in the Premises by Tenant other than soft drink, snack and other similar vending machines for the use of Tenant's employees only.

(t) Prior written approval, which shall be at Landlord's sole discretion, must be obtained for installation of window shades or any other window treatment of any kind whatsoever.

(u) Tenant shall not make any changes or alterations to any portion of the Building without Landlord's prior written approval, which may be given on such conditions as Landlord may elect. Such work may be done by Landlord or by contractors and/or workers approved by Landlord. The provisions of this Paragraph shall not affect or be deemed to supersede in any way the provisions of the Lease with regard to the improvement and alteration of the Premises.

(v) Tenant shall provide plexi-glass or other pads for all chairs mounted on rollers or casters, where carpet exists.

(w) Landlord reserves the right to rescind any of these rules and make such other and further rules and regulations as in its reasonable business judgment shall from time to time be needful for the operation of the Building, which rules shall be binding upon each Tenant upon

delivery to such Tenant of notice thereof in writing.

Landlord CF Tenant

Initial initial

EXHIBIT B

The granting of use of areas for new signage is contingent upon the signed lease of suite 100 and 1718 Industrial Road. All signage installed must be approved by the Landlord and the City of Las Vegas.

Landlord CF Tenant

Initial

LANDLORD: 1800 Industrial, LLC

By: /s/ Charles Fox

Its: Managing Member Date: 10/16/18

TENANT: CLS Nevada, Inc.

Guarantor: CLS Holdings USA, Inc.

By: /s/ Ben Sillitoe

Ben Sillitoe, CEO

Its: CEO Date: 10/19/18

Exhibit 10.35

February 25, 2020

From: 1800 Industrial, LLC
DBA Downtown Spaces
1800 Industrial Road, Suite 108G
Las Vegas, NV 89102

To: CLS Holdings NV, Inc.
Oasis Cannabis
1800 Industrial Road, Suite 180
Las Vegas, NV 89102

RE: Addendum to leases dated 7/1/2014 and 2/1/2019 for suite numbers 100, 102,160, and 180

It is hereby understood that TENANT CLS Holdings NV, Inc. (Oasis Cannabis) and LANDLORD 1800 Industrial, LLC (Downtown Spaces) have entered into this agreement dated on February 25, 2020.

Lease Term: 10 Years

Commencement: March 1, 2020

Lease Ending: February 28, 2030 with two 5-year renewal options

Basic Rent:

- Commencing every annual anniversary, there will be a 3% increase of the base rent.
- CAM Rate increase to $0.26 per square foot
- There will be a Six hundred 00/100 ($600.00) Dollars increase in rent per month due to the driveway fee agreement.

All other terms and agreements of prior agreements will remain in full force and effect.

Signature page to follow

/s/ Blanca Fox	Manager
Print Name: LANDLORD REPRESENTATIVE	Its:
Blanca Fox	3/12/20
1800 INDUSTRIAL, LLC LANDLORD Signature:	Date:
Andrew J. Glashow	President/COO
Print Name: TENANT REPRESENTATIVE	Its:
/s/ Andrew J. Glashow	3/12/20
CLS HOLDINGS NV, INC. TENANT Signature:	Date:

Exhibit 21.1

CLS HOLDINGS USA, INC.

Subsidiaries

CLS Labs, Inc., a Nevada corporation

CLS Labs Colorado, Inc., a Florida corporation

CLS Investments, Inc., a Nevada corporation

CLS Massachusetts, Inc., a Massachusetts corporation

CLS Nevada, Inc., a Nevada corporation

CLS Rhode Island, Inc., a Florida corporation

Cannabis Life Sciences Consulting, LLC, a Florida limited liability company

Alternative Solutions, L.L.C., a Nevada limited liability company

Serenity Wellness Center, LLC, a Nevada limited liability company

Serenity Wellness Growers, LLC, a Nevada limited liability company

Serenity Wellness Products, LLC, a Nevada limited liability company

Exhibit 31.1

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

I, Jeffrey I. Binder, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 31, 2020

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

Exhibit 31.2

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

I, Gregg Carlson, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 31, 2020

/s/ Gregg Carlson
Gregg Carlson
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey I. Binder, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Annual Report on Form 10-K of CLS Holdings USA, Inc. (the "Company") for the fiscal year ended May 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 31, 2020

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

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

Exhibit 32.2

CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregg Carlson, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge, the Annual Report on Form 10-K of CLS Holdings USA, Inc. (the "Company") for the fiscal year ended May 31, 2020 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 31, 2020

/s/ Gregg Carlson
Gregg Carlson
Chief Financial Officer
(Principal Financial and Accounting Officer)

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