

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **November 30, 2022**

or

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

Commission File Number: **000-55546**

CLS HOLDINGS USA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

45-1352286

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

1800 S. Industrial Road Suite 100, Las Vegas Nevada, 89102

(Address of principal executive offices) (Zip Code)

(416) 992-4539

(Registrant's telephone number, including area code)

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

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

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

Yes No

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

Yes No

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

Large Accelerated filer

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

Yes No

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 72,518,142 shares of \$0.0001 par value common stock outstanding as of January 10, 2023.

CLS HOLDINGS USA, INC.

FORM 10-Q
Quarterly Period Ended November 30, 2022

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EXPLANATORY NOTE

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

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, the impact of the COVID-19 virus on our business, the results of our initiatives to retain our employees and strengthen our relationships with our customers and community, the effect of our initiatives to expand market share and achieve growth, the expected development of our business and joint ventures, results of operations and financial performance, liquidity, working capital and capital requirements, the effects of the additional dilution on our common stock that may occur as a result of the amendments to our convertible debentures, and anticipated future events. 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 cultivation and processing activities, supply chains and sales channels, and retail dispensary operations as well as a deterioration of general economic conditions including a possible national or global recession. These forward-looking statements also relate to our ability to obtain debt or equity capital on reasonable terms, or at all, to finance our operations, and to identify, finance and close potential acquisitions and joint ventures, whether our joint venture partner will make its capital contribution, our ability to comply with applicable cannabis-related regulations and obtain regulatory approvals, market acceptance of our services and product offerings, our ability to protect and commercialize our intellectual property, our ability to use net operating losses to offset certain cannabis-related tax liabilities and our ability to grow our wholesale and processing businesses and joint ventures. In some cases, you can identify forward-looking statements by terminology such as “may,” “might,” “will,” “should,” “intends,” “expects,” “plans,” “goals,” “projects,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of these terms or other comparable terminology.

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

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

AVAILABLE INFORMATION

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

Item 1. Financial Statements.

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

| | November 30, 2022 | May 31, 2022 |
|---|------------------------------|-------------------------|
| | (unaudited) | (audited) |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 808,592 | \$ 2,551,859 |
| Accounts Receivable | 1,005,284 | 618,227 |
| Inventory | 4,875,656 | 3,417,602 |
| Prepaid expenses and other current assets | 287,248 | 295,869 |
| Total current assets | 6,976,780 | 6,883,557 |
| Property, plant and equipment, net of accumulated depreciation of \$2,493,182 and \$2,073,449 | 4,061,177 | 4,342,434 |
| Right of use assets, operating leases | 2,027,195 | 2,154,517 |
| Intangible assets, net of accumulated amortization of \$530,768 and \$473,308 | 1,132,825 | 1,190,285 |
| Goodwill | 557,896 | 557,896 |
| Investments | 558,421 | 469,575 |
| Other assets | 208,500 | 229,500 |
| Total assets | \$ 15,522,794 | \$ 15,827,764 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 3,300,107 | \$ 2,317,898 |
| Accrued interest, current | 317,850 | 419,206 |
| Loan payable | 1,439,000 | 1,013,073 |
| Lease liability - financing leases, current | 77,697 | 71,813 |
| Lease liability - operating leases, current | 352,162 | 309,597 |
| Taxes Payable | 5,567,558 | 4,531,782 |
| Convertible notes payable - current, net of discount of \$0 and \$0 | 400,000 | 19,448,821 |
| Total current liabilities | 11,454,374 | 28,112,190 |
| Noncurrent liabilities | | |
| Lease liability - operating leases, non-current | 1,736,837 | 1,893,810 |
| Lease liability - financing leases, non-current | 236,803 | 277,180 |
| Convertible notes payable, net of discount \$0 and \$0 | 7,506,102 | - |
| Notes payable, net of discount of \$1,291,887 and \$1,681,434 | 3,083,113 | 2,693,566 |
| Total Liabilities | 24,017,229 | 32,976,746 |
| Commitments and contingencies | - | - |
| Stockholder's deficit | | |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued | - | - |
| Common stock, \$0.0001 par value; 187,500,000 shares authorized at November 30, 2022 and May 31, 2022; 72,518,142 and 32,052,021 shares issued and outstanding at November 30, 2022 and May 31, 2022 | 7,253 | 3,206 |
| Additional paid-in capital | 96,142,740 | 77,954,748 |
| Common stock subscribed | 70,092 | 70,092 |
| Accumulated deficit | (104,444,249) | (95,079,817) |
| Stockholder's deficit attributable to CLS Holdings, Inc. | (8,224,164) | (17,051,771) |
| Non-controlling interest | (270,271) | (97,211) |
| Total stockholder's deficit | (8,494,435) | (17,148,982) |
| Total liabilities and stockholders' deficit | \$ 15,522,794 | \$ 15,827,764 |

See accompanying notes to these financial statements.

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

| | For the Three Months Ended November 30, 2022 | For the Three Months Ended November 30, 2021 | For the Six Months Ended November 30, 2022 | For the Six Months Ended November 30, 2021 |
|--|---|---|---|---|
| Revenue | \$ 6,074,177 | \$ 5,414,002 | \$ 12,119,104 | \$ 10,914,712 |
| Cost of goods sold | 3,071,733 | 2,684,190 | 6,074,463 | 5,288,657 |
| Gross margin | 3,002,444 | 2,729,812 | 6,044,641 | 5,626,055 |
| Selling, general and administrative expenses | 3,505,559 | 3,052,433 | 6,707,861 | 5,948,227 |
| Total operating expenses | 3,505,559 | 3,052,433 | 6,707,861 | 5,948,227 |
| Operating loss | (503,115) | (322,621) | (663,220) | (322,172) |
| Other (income) expense: | | | | |
| Interest expense, net | 608,905 | 407,880 | 1,375,575 | 826,472 |
| Loss on extinguishment of debt | 6,659,359 | - | 6,659,359 | - |
| (Income) Loss on equity investment | (80,319) | - | 154,111 | - |
| Gain on settlement of debt | (2,384) | - | (2,384) | - |
| Gain on settlement of note receivable | - | (522,246) | (348,165) | (1,696,328) |
| Total other (income) expense | 7,185,561 | (114,366) | 7,838,496 | (869,856) |
| Income (Loss) before income taxes | (7,688,676) | (208,255) | (8,501,716) | 547,684 |
| Provision for income tax | (516,691) | (140,717) | (1,035,776) | (469,057) |
| Net income (loss) | (8,205,367) | (348,972) | (9,537,492) | 78,627 |
| Non-controlling interest | (10,587) | 3,500 | 173,060 | 3,500 |
| Net income (loss) attributable to CLS Holdings, Inc. | \$ (8,215,954) | \$ (345,472) | \$ (9,364,432) | \$ 82,127 |
| Net income (loss) per share - basic | \$ (0.12) | \$ (0.01) | \$ (0.19) | \$ 0.00 |
| Net income (loss) per share - diluted | \$ (0.12) | \$ (0.01) | \$ (0.19) | \$ 0.00 |
| Weighted average shares outstanding - basic | 65,847,863 | 32,039,520 | 48,857,603 | 32,017,767 |
| Weighted average shares outstanding - diluted | 65,847,863 | 32,039,520 | 48,857,603 | 32,035,267 |

See accompanying notes to these financial statements.

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

| | <u>Common Stock</u> <u>Amount</u> | <u>Value</u> | <u>Additional</u> <u>Paid In</u> <u>Capital</u> | <u>Stock</u> <u>Payable</u> | <u>Accumulated</u> <u>Deficit</u> | <u>Non-</u> <u>controlling</u> <u>interest</u> | <u>Total</u> |
|---|--------------------------------------|--------------|---|--------------------------------|--------------------------------------|--|-----------------|
| Balance, May 31, 2021 | 31,805,354 | \$ 3,182 | \$ 77,570,934 | \$ 65,702 | \$ (92,736,638) | \$ - | \$ (15,096,820) |
| Common stock issued for conversion of debt | 234,167 | 23 | 280,977 | - | - | - | 281,000 |
| Net income (loss) for the six months ended November 30, 2021 | - | - | - | - | 82,127 | (3,500) | 78,627 |
| Balance, November 30, 2021 | 32,039,521 | \$ 3,205 | \$ 77,851,911 | \$ 65,702 | \$ (92,654,511) | \$ (3,500) | \$ (14,737,193) |
| Balance, May 31, 2022 | 32,052,021 | \$ 3,206 | \$ 77,954,748 | \$ 70,092 | \$ (95,079,817) | \$ (97,211) | \$ (17,148,982) |
| Common stock issued for the conversion of debt | 40,465,546 | 4,047 | 11,528,633 | - | - | - | 11,532,680 |
| Rounding for reverse split | 576 | - | - | - | - | - | - |
| Loss on extinguishment of debt | - | - | 6,659,359 | - | - | - | 6,659,359 |
| Net loss for the six months ended November 30, 2022 | - | - | - | - | (9,364,432) | (173,060) | (9,537,492) |
| Balance, November 30, 2022 | 72,518,142 | \$ 7,253 | \$ 96,142,740 | \$ 70,092 | \$ (104,444,249) | \$ (270,271) | \$ (8,494,435) |

See accompanying notes to these financial statements.

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

| | For the Six Months Ended November 30, 2022 | For the Six Months Ended November 30, 2021 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (9,537,492) | \$ 78,627 |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on equity investment | 154,111 | - |
| Amortization of debt discounts and fees | 394,110 | 35,496 |
| Gain on settlement of note receivable | (348,165) | (1,696,328) |
| Loss on extinguishment of debt | 6,659,359 | - |
| Gain on debt settlement | (2,384) | - |
| Depreciation and amortization expense | 477,193 | 356,455 |
| Bad debt expense | - | 129 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (387,057) | (115,060) |
| Prepaid expenses and other current assets | 29,621 | 3,586 |
| Inventory | (1,458,054) | (1,013,127) |
| Right of use asset | 174,067 | 158,257 |
| Accounts payable and accrued expenses | 982,209 | 93,988 |
| Accrued interest | 166,547 | (8,427) |
| Funds held in escrow | - | 250,000 |
| Deferred tax liability | 1,035,776 | 469,057 |
| Operating lease liability | (161,153) | (139,983) |
| Net cash used in operating activities | (1,821,312) | (1,527,330) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payments to purchase property, plant and equipment | (138,476) | (145,015) |
| Investment in Quinn River | (242,957) | - |
| Cash paid for construction deposit on grow facility | - | (93,000) |
| Proceeds from collection of note receivable | 348,165 | 1,696,328 |
| Net cash provided by (used in) investing activities | (33,268) | 1,458,313 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from loan payable | 1,717,115 | 303,815 |
| Repayments on convertible debt | (200,000) | - |
| Repayments of loan payable | (1,371,309) | (365,991) |
| Principal payments on finance leases | (34,493) | - |
| Net cash provided by (used in) financing activities | 111,313 | (62,176) |
| Net decrease in cash and cash equivalents | (1,743,267) | (131,193) |
| Cash and cash equivalents at beginning of period | 2,551,859 | 1,665,263 |
| Cash and cash equivalents at end of period | <u>\$ 808,592</u> | <u>\$ 1,534,070</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Interest paid | <u>\$ 894,838</u> | <u>\$ 799,403</u> |
| Income taxes paid | <u>\$ -</u> | <u>\$ -</u> |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Shares issued for conversion of notes payable | <u>\$ 11,532,680</u> | <u>\$ 281,000</u> |
| Capitalized interest | <u>\$ 3,283</u> | <u>\$ -</u> |
| Initial ROU asset and lease liability - operating | <u>\$ 46,745</u> | <u>\$ 229,412</u> |

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
November 30, 2022
(Unaudited)

Note 1 – Nature of Business and Significant Accounting Policies

Basis of Presentation

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

Principals of Consolidation

The accompanying consolidated financial statements include the accounts of CLS Holdings USA, Inc., and its 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”). The accompanying consolidated financial statements also include the accounts of a variable interest entity, Kealii Okamalu, LLC (“Kealii Okamalu”), in which the Company owns a 50% interest. All material intercompany transactions have been eliminated upon consolidation of these entities.

Nature of Business

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

On November 12, 2014, CLS Labs acquired 2,500,000 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, 1,562,500 shares of the Company’s common stock were issued to CLS Labs in exchange for the 2,500,000 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 3,750,000 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. The Company has not commercialized its patented proprietary process or otherwise earned any revenues from it. The Company is currently exploring ways in which to generate revenue from the patent or the sale of the patent.

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 5,514,706 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. The Company received final regulatory approval to own its interest in the Oasis LLCs through Alternative Solutions under the revised structure of the transaction on April 26, 2022.

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company (“CLS Massachusetts”), and In Good Health, Inc., a Massachusetts corporation (“IGH”), entered into an Option Agreement (the “IGH Option Agreement”). Under the terms of the IGH Option Agreement, CLS Massachusetts had an exclusive option to acquire all of the outstanding capital stock of IGH (the “IGH Option”) during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that was 60 days after such date. If CLS Massachusetts exercised the IGH Option, the Company, a wholly-owned subsidiary of the Company and IGH would enter into a merger agreement (the form of which had been agreed to by the parties) (the “IGH Merger Agreement”). At the effective time of the merger contemplated by the IGH Merger Agreement, CLS Massachusetts would pay a purchase price of \$47,500,000, subject to reduction as provided in the IGH Merger Agreement, payable as follows: \$35 million in cash, \$7.5 million in the form of a five-year promissory note, and \$5 million in the form of restricted common stock of the Company, plus \$2.5 million as consideration for a non-competition agreement with IGH’s President, payable in the form of a five-year promissory note. IGH and certain IGH stockholders holding sufficient aggregate voting power to approve the transactions contemplated by the IGH Merger Agreement entered into agreements pursuant to which such stockholders, among other things, agreed to vote in favor of such transactions. On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH, in the principal amount of \$5,000,000, subject to the terms and conditions set forth in that certain loan agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender. The loan was evidenced by a secured promissory note of IGH, which bore interest at the rate of 6% per annum and was to mature on October 31, 2021. To secure the obligations of IGH to the Company under the loan agreement and the promissory note, the Company and IGH entered into a security agreement dated as of October 31, 2018, pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH. If the Company did not exercise the Option on or prior to the date that was 30 days following the end of the option period, the loan amount would be reduced to \$2,500,000 as a break-up fee, subject to certain exceptions set forth in the IGH Option Agreement. On August 26, 2019, the parties amended the IGH Option Agreement to, among other things, delay closing until January 2020. By letter agreement dated January 31, 2020, the Company, CLS Massachusetts and IGH extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option and IGH subsequently asserted that CLS Massachusetts’ exercise was invalid. 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 IGH Note. On February 27, 2020, IGH informed CLS Massachusetts that it did not plan to make further payments under the IGH Note on the theory that the break-up excused additional payments. This dispute, including whether IGH breached the IGH Option and whether CLS was entitled to collect default interest, was in litigation. During the twelve months ended May 31, 2021, the Company impaired the remaining amounts due under the IGH Note in the amount of \$2,498,706, which included \$2,497,884 in principal and \$822 in accrued interest.

On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and a secured promissory note dated and executed by IGH in favor of the Company effective on June 11, 2021 (the “IGH Settlement Note”). Pursuant to the IGH Settlement Note, IGH paid the Company \$3,000,000, \$500,000 of which was paid on or before June 21, 2021. A second payment of \$500,000 was paid on or before July 12, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments beginning on August 12, 2021, pursuant to the terms of the promissory note. During the year ended May 31, 2022, the Company received \$2,740,820 under the IGH Settlement Note, which included \$2,666,670 in principal and \$74,150 in accrued interest. During the six months ended November 30, 2022, the Company received \$348,165 under the IGH Settlement Note, which included \$333,333 in principal and \$14,832 in accrued interest. As of November 30, 2022, the IGH Settlement Note had been repaid in full. The Company records amounts paid under the IGH Settlement Note as gains when payments are received.

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On October 20, 2021, the Company entered into a management services agreement (the “Quinn River Joint Venture Agreement”) through its 50% owned subsidiary, Kealii Okamalu, LLC (“Kealii Okamalu”), with CSI Health MCD LLC (“CSI”) and a commission established by the authority of the Tribal Council of the Fort McDermitt Paiute and Shoshone Tribe (the “Tribe”). The purpose of the Quinn River Joint Venture Agreement is to establish a business (the “Quinn River Joint Venture”) to grow, cultivate, process and sell cannabis and related products. The Quinn River Joint Venture Agreement has a term of 10 years plus a 10-year renewal term from the date the first cannabis crop produced is harvested and sold. Pursuant to the Quinn River Joint Venture Agreement, Kealii Okamalu leases approximately 20-30 acres of the Tribe’s land located along the Quinn River at a cost of \$3,500 per quarter and managed the design, finance and construction of a cannabis cultivation facility on such tribal lands (the “Cultivation Facility”). Kealii Okamalu also manages the ongoing operations of the Cultivation Facility and related business, including, but not limited to, cultivation of cannabis crops, personnel staffing, product packaging, testing, marketing and sales. Packaged products are branded as “Quinn River Farms.” The Company has provided up to 10,000 square feet of warehouse space at its Las Vegas facility for the Quinn River product and has preferred vendor status, including the right to purchase cannabis flower and the business’s cannabis trim at favorable prices. Kealii Okamalu is expected to ultimately contribute \$6 million towards the construction of the Cultivation Facility and the working capital for the Quinn River Joint Venture. This amount will be repaid from a portion of the net income of the Quinn River Joint Venture otherwise payable to CSI and the Tribe at the rate of \$750,000 per quarter for eight quarters. After repayment to Kealii Okamalu of the initial investment amount of approximately \$6 million, Kealii Okamalu will receive one-third of the net profits of the Quinn River Joint Venture.

On January 4, 2018, the former Attorney General, Jeff Sessions, rescinded the memorandum issued by former Deputy Attorney General James Cole on August 29, 2013 (as amended on February 14, 2014, 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 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.

William Barr served as United States Attorney General from February 14, 2019 to December 23, 2020. The DOJ under Mr. Barr did not take a formal position on federal enforcement of laws relating to cannabis. On March 11, 2021, United States President Biden’s nominee, Merrick Garland was sworn in as the U.S. Attorney General. During his campaign, President Biden stated a policy goal to decriminalize possession of cannabis at the federal level, but he has not publicly supported the full legalization of cannabis. It is unclear what impact, if any, this administration will have on U.S. federal government enforcement policy on cannabis. There is no guarantee that the position of the Department of Justice will change.

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.

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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 \$808,592 and \$2,551,859 as of November 30, 2022 and May 31, 2022, respectively.

Allowance for Doubtful Accounts

The Company generates the majority of its revenues and corresponding accounts receivable from the sale of cannabis, and cannabis related products. The Company evaluates the collectability of its accounts receivable considering a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations to it, the Company records a specific reserve for bad debts against amounts due in order to reduce the net recognized receivable to the amount it reasonably believes will be collected. For all other customers, the Company recognizes reserves for bad debts based on past write-off experience and the length of time the receivables are past due. The Company had \$0 and \$129 of bad debt expense during the three months ended November 30, 2022 and 2021, respectively. The Company had \$0 and \$129 of bad debt expense during the six months ended November 30, 2022 and 2021, 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:

| | <u>Years</u> |
|------------------------|---------------|
| 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." At November 30, 2022, the net carrying value of goodwill on the Company's balance sheet remained at \$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.

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Non-Controlling Interests

The Company reports “non-controlling interest in subsidiary” as a component of equity, separate from parent’s equity, on the Consolidated Balance Sheets. In addition, the Company’s Consolidated Statements of Operations includes “net income (loss) attributable to non-controlling interest.” During the three months ended November 30, 2022 and 2021, the Company reported a non-controlling interest in the amount of (\$10,587) and \$3,500, respectively, representing 50% of the (income) loss incurred by its partially owned subsidiary, Kealii Okamalu. During the six months ended November 30, 2022 and 2021, the Company reported a non-controlling interest in the amount of \$173,060 and \$3,500, respectively, representing 50% of the loss incurred by its partially owned subsidiary, Kealii Okamalu.

Variable Interest Entities

The Company’s consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and variable interest entities (“VIE”), where the Company is the primary beneficiary under the provisions of ASC 810, Consolidation (“ASC 810”). A VIE must be consolidated by its primary beneficiary when, along with its affiliates and agents, the primary beneficiary has both: (i) the power to direct the activities that most significantly impact the VIE’s economic performance; and (ii) the obligation to absorb losses or the right to receive the benefits of the VIE that could potentially be significant to the VIE. The Company reconsiders whether an entity is still a VIE only upon certain triggering events and continually assesses its consolidated VIEs to determine if it continues to be the primary beneficiary. See “Note 3 – Joint Ventures” for additional information on the Company’s VIEs.

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 \$175,232 and \$341,872 for the three months ended November 30, 2022 and 2021, respectively. Total recognized advertising and marketing expenses were \$398,125 and \$788,538 for the six months ended November 30, 2022 and 2021, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of \$683 and \$9,908 for the three months ended November 30, 2022 and 2021, respectively. The Company incurred research and development costs of \$683 and \$10,508 for the six months ended November 30, 2022 and 2021, respectively.

Fair Value of Financial Instruments

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

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

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

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

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

Revenue Recognition

Revenue from the sale of cannabis products is recognized by Oasis at the point of sale, at which time payment is received, the product is delivered, and the Company's performance obligation has been met. 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, cultivators and distributors 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.

Disaggregation of Revenue

The following table represents a disaggregation of revenue for the three and six months ended November 30, 2022 and 2021:

| | For the Three Months Ended November 30, 2022 | For the Three Months Ended November 30, 2021 |
|---------------------|---|---|
| Cannabis Dispensary | 3,792,804 | 3,591,399 |
| Cannabis Production | 2,281,373 | 1,822,603 |
| | <u>\$ 6,074,177</u> | <u>\$ 5,414,002</u> |

| | For the Six Months Ended November 30, 2022 | For the Six Months Ended November 30, 2021 |
|---------------------|---|---|
| Cannabis Dispensary | 7,681,361 | 7,336,974 |
| Cannabis Production | 4,437,743 | 3,577,738 |
| | <u>\$ 12,119,104</u> | <u>\$ 10,914,712</u> |

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 November 30, 2022 and 2021, the Company had the following potentially dilutive instruments outstanding: at November 30, 2022, a total of 42,653,147 shares (21,962,699 issuable upon the exercise of warrants, 256,550 issuable upon the exercise of unit warrants, 20,403,898 issuable upon the conversion of convertible notes payable and accrued interest, and 30,000 in stock to be issued); and at November 30, 2021, a total of 18,857,739 shares (1,656,467 issuable upon the exercise of warrants, 760,323 issuable upon the exercise of unit warrants, 16,423,449 issuable upon the conversion of convertible notes payable and accrued interest, and 17,500 in stock to be issued).

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The following is a reconciliation for the calculation of basic and diluted earnings per share for the three and six months ended November 30, 2022 and 2021:

| | For the Three Months Ended November 30, | |
|--|---|--------------|
| | 2022 | 2021 |
| Net income (loss) attributable to CLS Holdings, Inc. | \$ (8,215,954) | \$ (345,472) |
| Weighted average number of common shares outstanding | 65,847,863 | 32,039,520 |
| Dilutive effect of shares issuable | - | - |
| Diluted weighted average number of common shares outstanding | 65,847,863 | 32,039,520 |
| Basic earnings (loss) per share | \$ (0.12) | \$ (0.01) |
| Diluted earnings (loss) per share | \$ (0.12) | \$ (0.01) |

| | For the Six Months Ended November 30, | |
|--|---------------------------------------|------------|
| | 2022 | 2021 |
| Net income (loss) attributable to CLS Holdings, Inc. | \$ (9,364,432) | \$ 82,127 |
| Weighted average number of common shares outstanding | 48,857,603 | 32,017,767 |
| Dilutive effect of shares issuable | - | 17,500 |
| Diluted weighted average number of common shares outstanding | 48,857,603 | 32,035,267 |
| Basic earnings (loss) per share | \$ (0.19) | \$ 0.00 |
| Diluted earnings (loss) per share | \$ (0.19) | \$ 0.00 |

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 calculations.

A net loss causes all outstanding stock options and warrants to be anti-dilutive. As a result, the basic and dilutive losses per common share are the same for the three and six months ended November 30, 2022. For the three and six months ended November 30, 2022, the Company excluded from the calculation of fully diluted earnings per share the following instruments which were anti-dilutive: shares issuable pursuant to the conversion of notes payable and accrued interest, shares issuable pursuant to the exercise of warrants, and 30,000 shares of common stock issuable.

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

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

Note 2 – Going Concern

As shown in the accompanying financial statements, the Company has incurred net losses from operations resulting in an accumulated deficit of \$104,444,249 as of November 30, 2022. 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 revenues from operations.

Note 3 – Joint Venture and Options Transaction

In Good Health

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

On October 31, 2018, as consideration for the IGH Option, the Company made a loan to IGH (the “IGH Loan”), in the principal amount of \$5,000,000 (the “IGH Loan Amount”), subject to the terms and conditions set forth in that certain Loan Agreement, dated as of October 31, 2018 between IGH as the borrower and the Company as the lender (the “IGH Loan Agreement”). The IGH Loan was evidenced by a secured promissory note of IGH (the “IGH Note”), which bore interest at the rate of 6% per annum and was scheduled to mature on October 31, 2021. The Company recorded interest income in the amounts of \$149,972 and \$296,450 on the IGH Loan during the twelve months ended May 31, 2021 and 2020, respectively. On March 1, 2020, the Company capitalized interest in the amount of \$399,453 into the principal amount due. During the years ended May 31, 2021 and 2020, the Company capitalized interest in the amount of \$0 and \$399,453, respectively, on the IGH Note. During the year ended May 31, 2021, the Company received payments on the IGH Note in the amount of \$1,696,765. The Company applied these payments as follows; \$1,544,291 as a repayment of principal and \$152,473 as a repayment of accrued interest. 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. To secure the obligations of IGH to the Company under the IGH Loan Agreement and the IGH Note, the Company and IGH entered into a Security Agreement dated as of October 31, 2018 (the “IGH Security Agreement”), pursuant to which IGH granted to the Company a first priority lien on and security interest in all personal property of IGH. If the Company did not exercise the IGH Option on or prior to the date that was 30 days following the end of the Option Period, the IGH Loan Amount would be reduced to \$2,500,000 as a break-up fee (the “Break-Up Fee”), except in the event of a Purchase Exception (as defined in the IGH Option Agreement), in which case the Break-Up Fee would not apply and there would be no reduction to the Loan Amount. On August 26, 2019, the parties amended the IGH Option to, among other things, extend the Option Period and delay closing until January 2020. By letter agreement dated January 31, 2020, the Company, CLS Massachusetts and IGH extended the IGH Option Agreement to February 4, 2020. On February 4, 2020, CLS Massachusetts exercised the IGH Option and IGH subsequently asserted that CLS Massachusetts’ exercise was invalid. 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 IGH Note. On February 27, 2020, IGH informed CLS Massachusetts that it did not plan to make further payments under the IGH Note on the theory that the Break-Up Fee excused additional payments. This dispute, including whether IGH breached the IGH Option and whether CLS was entitled to collect default interest, was in litigation. During the twelve months ended May 31, 2021, the Company impaired the remaining amounts due under the IGH Note in the amount of \$2,498,706, which included \$2,497,884 in principal and \$822 in accrued interest.

On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and the IGH Settlement Note. Pursuant to the IGH Settlement Note, IGH paid the Company \$3,000,000, \$500,000 of which was paid on or before June 21, 2021. A second payment of \$500,000 was paid on or before July 12, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments beginning on August 12, 2021, pursuant to the terms of the promissory note. During the year ended May 31, 2022, the Company received \$2,740,820 under the IGH Settlement Note, which included \$2,666,670 in principal and \$74,150 in accrued interest. During the six months ended November 30, 2022, the Company received \$348,165 under the IGH Settlement Note, which included \$333,333 in principal and \$14,832 in accrued interest. As of November 30, 2022, the IGH Settlement Note had been repaid in full. The Company records amounts paid under the IGH Settlement Note as gains when payments are received.

Quinn River Joint Venture

On October 20, 2021, the Company entered into a management services agreement (the “Quinn River Joint Venture Agreement”) through its 50% owned subsidiary, Kealii Okamalu, with CSI Health MCD LLC (“CSI”) and a commission established by the authority of the Tribal Council of the Fort McDermitt Paiute and Shoshone Tribe (“Tribe”). The purpose of the Quinn River Joint Venture Agreement is to establish a business (the “Quinn River Joint Venture”) to grow, cultivate, process, and sell cannabis and related products. The Quinn River Joint Venture Agreement has an initial term of 10 years plus a 10 year renewal option from the date the first cannabis crop produced is harvested and sold. Pursuant to the Quinn River Joint Venture Agreement, Kealii Okamalu is expected to eventually lease approximately 20-30 acres of the Tribe’s land located along the Quinn River at a cost of \$3,500 per quarter. Additionally, pursuant to the terms of the Quinn River Joint Venture Agreement, Kealii Okamalu has managed the design, finance and construction of a cannabis cultivation facility on such tribal lands (“the Cultivation Facility”). Kealii Okamalu also manages the ongoing operations of the Cultivation Facility and related business, including, but not limited to, the cultivation of cannabis crops, personnel staffing, product packaging, testing, marketing and sales. Packaged products are branded as “Quinn River Farms.” The Company will provide up to 10,000 square feet of warehouse space at its Las Vegas facility for the Quinn River Joint Venture product, and has preferred vendor status, including the right to purchase cannabis flower and the business’s cannabis trim at favorable prices. Kealii Okamalu is expected to contribute up to \$6 million (the “Invested Amount”) towards the construction of the Cultivation Facility and the working capital for the Quinn River Joint Venture. This amount will be repaid from the portion of the net profits of the Quinn River Joint Venture otherwise payable to CSI and the Tribe at the rate of \$750,000 per quarter for eight quarters. After repayment of the Invested Amount, Kealii Okamalu will receive one-third of the net profits of the Quinn River Joint Venture.

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The Company is the manager of and holds a 50% ownership interest in Kealii Okamalu. Kealii Okamalu is a VIE which the Company consolidates. The Quinn River Joint Venture is not a legal entity but rather a business operated by Kealii Okamalu. The Company uses the equity method of accounting to record one-third of the profit or loss generated by the Quinn River Joint Venture, which accrues to Kealii Okamalu. Since the Company is a 50% owner of Kealii Okamalu, 50% of the profit or loss of Kealii Okamalu is recorded as minority interest in the Company's statement of operations.

During the year ended May 31, 2022, Kealii Okamalu made cash investments in the aggregate amount of \$581,714 in the Quinn River Joint Venture. The Company also purchased \$949,939 of fixed assets for use by the Quinn River Joint Venture which are on the balance sheet of Kealii Okamalu. During the year ended May 31, 2022, the Quinn River Joint Venture recorded a loss in the amount of \$336,416. One-third of this amount, or \$112,139, was charged to the financial statements of Kealii Okamalu and recorded as a loss on equity investment in the Company's financial statements for the year ended May 31, 2022, reducing the Company's equity investment in the Quinn River Joint Venture from \$581,714 to \$469,575 at May 31, 2022.

During the six months ended November 30, 2022, Kealii Okamalu made cash investments in the aggregate amount of \$242,957 in the Quinn River Joint Venture. The Company also purchased \$84,327 of fixed assets for use by the Quinn River Joint Venture which are on the balance sheet of Kealii Okamalu. During the six months ended November 30, 2022, the Quinn River Joint Venture recorded a loss in the amount of \$462,333. One-third of this amount, or \$154,111, was charged to the financial statements of Kealii Okamalu and recorded as a loss on equity investment in the Company's financial statements for the six months ended November 30, 2022. The Company's net equity investment in the Quinn River Joint Venture was \$558,421 at November 30, 2022.

Note 4 – Accounts Receivable

Accounts receivable was \$1,005,284 and \$618,227 at November 30, 2022 and May 31, 2022, respectively. The Company had bad debt expense of \$0 and \$129 during the three months ended November 30, 2022 and 2021. The Company had bad debt expense of \$0 and \$129 during the six months ended November 30, 2022 and 2021. No allowance for doubtful accounts was necessary during the three and six months ended November 30, 2022 and 2021.

Note 5 – Inventory

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

| | November 30, 2022 | May 31, 2022 |
|----------------|----------------------|-----------------|
| Raw materials | \$ 494,981 | \$ 297,563 |
| Finished goods | 4,380,675 | 3,120,039 |
| Total | \$ 4,875,656 | \$ 3,417,602 |

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

Note 6 – Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following at November 30, 2022 and May 31, 2022:

| | November 30, 2022 | May 31, 2022 |
|------------------|----------------------|-----------------|
| Deposits | \$ - | 2,016 |
| Prepaid expenses | 287,248 | 293,853 |
| Total | \$ 287,248 | \$ 295,869 |

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.

Note 7 – Notes ReceivableIGH Note Receivable

On October 31, 2018, in connection with an option to purchase transaction (see note 4 for details), the Company loaned \$5,000,000 pursuant to the IGH Note to IGH.

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 was entitled to collect default interest, was in litigation.

On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and the IGH Settlement Note. Pursuant to the IGH Settlement Note, IGH paid the Company \$3,000,000, \$500,000 of which was paid on or before June 21, 2021. A second payment of \$500,000 was paid on or before July 12, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments beginning on August 12, 2021, pursuant to the terms of the promissory note. During the year ended May 31, 2022, the Company received \$2,740,820 under the IGH Settlement Note, which included \$2,666,670 in principal and \$74,150 in accrued interest. During the six months ended November 30, 2022, the Company received \$348,165 under the IGH Settlement Note, which included \$333,333 in principal and \$14,832 in accrued interest. As of November 30, 2022, the IGH Settlement Note had been repaid in full. The Company records amounts paid under the IGH Settlement Note as gains when payments are received.

Note 8 – Property, Plant and Equipment

Property, plant and equipment consisted of the following at November 30, 2022 and May 31, 2022:

| | November 30, 2022 | May 31, 2022 |
|-------------------------------------|----------------------|---------------------|
| Office equipment | \$ 136,476 | \$ 132,859 |
| Furniture and fixtures | 148,358 | 148,358 |
| Machinery & Equipment | 2,557,078 | 2,447,715 |
| Leasehold improvements | 3,712,447 | 3,686,951 |
| Less: accumulated depreciation | (2,493,182) | (2,073,449) |
| Property, plant, and equipment, net | <u>\$ 4,061,177</u> | <u>\$ 4,342,434</u> |

The Company made payments in the amounts of \$138,476 and \$145,015 for property and equipment during the six months ended November 30, 2022 and May 31, 2022, respectively.

Depreciation expense totaled \$211,543 and \$150,428 for the three months ended November 30, 2022 and 2021, respectively. Depreciation expense totaled \$419,733 and \$298,306 for the six months ended November 30, 2022 and 2021, respectively.

Note 9 – Right of 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 10.5 years, some of which include options to extend.

The Company's lease expense for the three months ended November 30, 2022 and 2021 was entirely comprised of operating leases and amounted to \$83,520 and \$126,430, respectively. The Company's lease expense for the six months ended November 30, 2022 and 2021 was entirely comprised of operating leases and amounted to \$207,908 and \$249,374, respectively. The Company's right of use ("ROU") asset amortization for the three months ended November 30, 2022 and 2021 was \$87,318 and \$80,021, respectively. The Company's right of use ("ROU") asset amortization for the three months ended November 30, 2022 and 2021 was \$174,067 and \$158,257, respectively. The difference between the lease expense and the associated ROU asset amortization consists of interest.

The Company has recorded total right of use assets of \$4,159,621 and liabilities in the amount of \$4,116,221 through November 30, 2022. During the six months ended November 30, 2022, the Company entered into an agreement to extend the lease term of its property located at 1718 Industrial Road from August 31, 2022 to August 31, 2024, resulting in an increase in right of use assets and lease liabilities in the amount of \$46,745.

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On May 17, 2022, pursuant to the Quinn River Joint Venture Agreement (see note 4 for details), the Company, through CLS Nevada, Inc., entered into an agreement (the “Quinn River Lease”) to use approximately 20 acres of land for purposes of building and operating a facility to grow cannabis. The lease has a term of 9 years, with two-year renewal options. Rent is \$3,500 per quarter. The initial amount of the right of use asset and operating lease liability under the Quinn River Lease was \$221,469.

Right of use assets – operating leases are summarized below:

| | November 30, 2022 |
|-------------------------------|------------------------------|
| Amount at inception of leases | \$ 4,159,621 |
| Amount amortized | (2,132,426) |
| Balance – November 30, 2022 | <u>\$ 2,027,195</u> |

Operating lease liabilities are summarized below:

| | |
|-------------------------------|---------------------|
| Amount at inception of leases | \$ 4,116,221 |
| Amount amortized | (2,027,222) |
| Balance – November 30, 2022 | <u>\$ 2,088,999</u> |
| Warehouse and offices | \$ 1,808,834 |
| Land | 211,211 |
| Office equipment | 7,150 |
| Balance – November 30, 2022 | <u>\$ 2,027,195</u> |
| Lease liability | \$ 2,088,999 |
| Less: current portion | (352,162) |
| Lease liability, non-current | <u>\$ 1,736,837</u> |

Maturity analysis under these lease agreements is as follows:

| | |
|---------------------------------------|---------------------|
| Twelve months ended November 30, 2023 | \$ 521,105 |
| Twelve months ended November 30, 2024 | 526,348 |
| Twelve months ended November 30, 2025 | 522,901 |
| Twelve months ended November 30, 2026 | 301,547 |
| Twelve months ended November 30, 2027 | 229,320 |
| Thereafter | 626,435 |
| Total | <u>\$ 2,727,656</u> |
| Less: Present value discount | (638,657) |
| Lease liability | <u>\$ 2,088,999</u> |

Note 10 – Intangible Assets

Intangible assets consisted of the following at November 30, 2022 and May 31, 2022:

| | November 30, 2022 | | |
|------------------------------|--------------------------|-------------------------------------|---------------------|
| | Gross | Accumulated Amortization | Net |
| Intellectual Property | \$ 319,600 | \$ (141,157) | \$ 178,443 |
| License & Customer Relations | 990,000 | (218,625) | 771,375 |
| Tradenames - Trademarks | 301,000 | (132,942) | 168,058 |
| Non-Compete Agreements | 27,000 | (27,000) | - |
| Domain Names | 25,993 | (11,044) | 14,949 |
| Total | <u>\$ 1,663,593</u> | <u>\$ (530,768)</u> | <u>\$ 1,132,825</u> |

| | May 31, 2022 | | |
|------------------------------|---------------------|-------------------------------------|---------------------|
| | Gross | Accumulated Amortization | Net |
| Intellectual Property | \$ 319,600 | \$ (125,177) | \$ 194,423 |
| License & Customer Relations | 990,000 | (193,875) | 796,125 |
| Tradenames - Trademarks | 301,000 | (117,892) | 183,108 |
| Non-compete Agreements | 27,000 | (27,000) | - |
| Domain Names | 25,993 | (9,364) | 16,629 |
| Total | <u>\$ 1,663,593</u> | <u>\$ (473,308)</u> | <u>\$ 1,190,285</u> |

Total amortization expense charged to operations for the three months ended November 30, 2022 and 2021 was \$28,715 and \$28,715, respectively. Total amortization expense charged to operations for the six months ended November 30, 2022 and 2021 was \$57,460 and \$58,149, respectively.

| Amount to be amortized during the twelve months ended November 30, | |
|--|---------------------|
| 2023 | \$ 114,896 |
| 2024 | 114,896 |
| 2025 | 114,896 |
| 2026 | 114,896 |
| 2027 | 113,165 |
| Thereafter | 560,076 |
| | <u>\$ 1,132,825</u> |

Note 11 – Goodwill

Goodwill in the amount of \$557,896 is carried on the Company's balance sheet at November 30, 2022 and May 31, 2022 in connection with the acquisition of Alternative Solutions on June 27, 2018.

Goodwill Impairment Test

The Company assessed its intangible assets as of May 31, 2022 and 2021 for purposes of determining if an impairment existed as set forth in ASC 350 – Intangibles – Goodwill and Other and ASC 360 – Property Plant and Equipment. Pursuant to ASC 360, the Company determined that the fair value of its intangible assets exceeded the carrying value of goodwill at November 30, 2022 and May 31, 2022. As a result, no impairment was recorded. At November 30, 2022 and May 31, 2022, the net amount of goodwill on the Company's balance sheet was \$557,896.

Note 12 – Other Assets

Other assets included the following as of November 30, 2022 and May 31, 2022:

| | November 30, 2022 | May 31, 2022 |
|-------------------|------------------------------|-------------------------|
| Security deposits | \$ 208,500 | \$ 229,500 |
| | <u>\$ 208,500</u> | <u>\$ 229,500</u> |

Note 13 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at November 30, 2022 and May 31, 2022:

| | November 30, 2022 | May 31, 2022 |
|-----------------------------------|----------------------|---------------------|
| Trade accounts payable | \$ 2,207,945 | \$ 1,414,074 |
| Accrued payroll and payroll taxes | 304,644 | 323,254 |
| Accrued liabilities | 539,487 | 580,570 |
| Legal fees in dispute (a) | 248,031 | - |
| Total | <u>\$ 3,300,107</u> | <u>\$ 2,317,898</u> |

- a. Amount represents invoices received by the Company from prior legal counsel for services. As of November 30, 2022, the Company has completed its investigation of these invoices and has determined not to approve them for payment. Furthermore, on January 4, 2023, the company filed a Florida Bar Association Complaint against the lawyer who provided the services. The Bar Complaint seeks sanctions for “Excessive and Unreasonable Legal Fees”, “Violation of the Attorney-Client Privilege” and “Intentional Delay and Harm to the Company’s Interest”.

Note 14 – Loans PayableLeaflink Financing Agreement

The Company is a party to an accounts receivable financing agreement with a lender (the “Short Term Financing Agreement”) for two of its subsidiaries. During the three months ended November 30, 2022, the Company received cash proceeds in the amount of \$0 from additional loans under the Short-Term Financing Agreement, made payments in the amount of \$765,000 and incurred fees in the amount of \$0. During the six months ended November 30, 2022, the Company received cash proceeds in the amount of \$650,115 from additional loans under the Short-Term Financing Agreement, made payments in the amount of \$1,350,962, and incurred fees in the amount of \$75,558. At November 30, 2022, and May 31, 2022, the balance due under the Short Term Financing Agreement was \$387,784 and \$1,013,073, respectively. The loans are due in 30 days and have a discount fee of 3%.

2022 Financing Agreement CBR

Effective September 30, 2022, we entered into a Business Loan and Security Agreement with CBR Capital LLC to borrow \$900,000. The loan is repayable in 48 weekly installments in the amount of \$13,312.50 for weeks 1-8 and \$29,287.50 for weeks 9-48. CBR Capital LLC has stated that it is aware of the Canaccord Debentures and the U.S. Convertible Debentures and will agree to subordinate the CBR security interest to these debenture holders.

During the three months ended November 30, 2022, the Company received cash proceeds in the amount of \$873,000 from the loan agreement and made payments in the amount of \$93,188. Of these payments \$5,652 was principal and \$87,536 was interest. At the inception of the loan, the Company recorded a discount in the amount of \$27,000 related to prepaid fees. During the three months ended November 30, 2022, the Company amortized \$3,938 of these fees to interest expense, the balance of the discount remaining at November 20, 2022 is \$23,063. At November 30, 2022, and May 31, 2022, the balance due under the CBR Agreement was \$871,286 and \$0 net of discount, respectively

2022 Financing Agreement TVT

Effective October 21, 2022, we entered into a Purchase and Sale of Future Receipts Agreement with TVT Business Funding LLC to borrow \$200,000. The loan is repayable in 48 weekly installments in the amount of \$5,916.67.

During the three months ended November 30, 2022, the Company received cash proceeds in the amount of \$194,000 from the loan agreement and made payments in the amount of \$29,583. Of these payments \$14,695 was principal and \$14,888 was interest. At the inception of the loan, the Company recorded a discount in the amount of \$6,000 related to prepaid fees. During the three months ended November 30, 2022, the Company amortized \$625 of these fees to interest expense, the balance of the discount remaining at November 20, 2022 is \$5,375. At November 30, 2022, and May 31, 2022, the balance due under the TVT Agreement was \$179,930 and \$0 net of discount, respectively

Note 15 – Convertible Notes Payable

| | November 30, 2022 | May 31, 2022 |
|---|-------------------|--------------|
| 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 was to mature on a date that was three years following issuance. The U.S. Convertible Debenture 1 was convertible into units (the “Convertible Debenture Units”) at a conversion price of \$3.20 per Convertible Debenture Unit. Each Convertible Debenture Unit consisted 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 \$4.40. On July 26, 2019, U.S. Convertible Debenture 1 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 1, the conversion price of U.S. Convertible Debenture 1 would be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 1 would be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 1 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 1 is an unsecured obligation of the Company and ranks pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$3,254,896 on the U.S. Convertible Debenture 1. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$45,045 and \$135,134 on the U.S. Convertible Debenture 1, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$0 and \$90,089, respectively. On April 15, 2021, the U.S. Convertible Debenture 1 was amended as follows: (i) the conversion price of the debenture was reduced to \$1.20 per unit; and (ii) the maturity date was extended from October 31, 2021 to October 31, 2022. This amendment was accounted for as an extinguishment of debt, and the Company recorded a loss in the amount of \$2,038,803 during the year ended May 31, 2021 in connection with the amendment. On September 15, 2022, the U.S. Convertible Debenture 1 was further amended as follows: (i) the conversion price of debentures with a principal amount of \$2,702,674 was reduced to \$0.285 per unit, and these debentures along with accrued interest in the amount of \$45,044 were converted to 9,641,118 shares of common stock and warrants to purchase 4,820,560 shares of common stock; (ii) the conversion price of the remaining debentures with a principal amount of \$1,801,783 was reduced to \$0.40 per share; (iii) the maturity date of 50% of the remaining debentures with a principal amount of \$900,891.50 was extended to December 31, 2023, and the maturity date of 50% of the remaining debentures with a principal amount of \$900,891.50 was extended to December 31, 2024; and (iv) the conversion price of the warrants issuable upon conversion of the debentures was reduced to \$0.40. The value of the warrants will be determined when the issuance becomes probable. This amendment was accounted for as an extinguishment of debt, and a loss in the amount of \$1,689,368 was recorded on this transaction. | \$ 1,801,783 | \$ 4,504,457 |

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 was to mature on a date that was three years following issuance. The U.S. Convertible Debenture 2 was convertible into Convertible Debenture Units at a conversion price of \$3.20 per Convertible Debenture Unit. Each Convertible Debenture Unit consisted 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 \$4.40. On July 26, 2019, U.S. Convertible Debenture 2 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 2, the conversion price of U.S. Convertible Debenture 2 would be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 2 would be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 2 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 2 is an unsecured obligation of the Company and ranks pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$813,724 on the U.S. Convertible Debenture 2. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$11,261 and \$33,783 on the U.S. Convertible Debenture 2, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$0 and \$22,522, respectively. On April 15, 2021, the U.S. Convertible Debenture 2 was amended as follows: (i) the conversion price of the debentures was reduced to \$1.20 per unit; and (ii) the maturity date was extended from October 31, 2021 to October 31, 2022. This amendment was accounted for as an extinguishment of debt, and the Company recorded a loss in the amount of \$509,700 during the year ended May 31, 2021. On September 15, 2022, the U.S. Convertible Debenture 2 was further amended as follows: (i) the conversion price of debentures with a principal amount of \$675,668 was reduced to \$0.285 per unit, and these debentures along with accrued interest in the amount of \$11,261 were converted to 2,410,279 shares of common stock and warrants to purchase 1,205,140 shares of common stock; (ii) the conversion price of the remaining debentures with a principal amount of \$450,446 was reduced to \$0.40 per share; (iii) the maturity date of 50% of the remaining debentures with a principal amount of \$225,223 was extended to December 31, 2023, and the maturity date of 50% of the remaining debentures with a principal amount of \$225,223 was extended to December 31, 2024; and (iv) the conversion price of the warrants issuable upon conversion of the debentures was reduced to \$0.40. The value of the warrants will be determined when the issuance becomes probable. This amendment was accounted for as an extinguishment of debt, and a loss in the amount of \$422,331 was recorded on this transaction.

450,446

1,126,114

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 was to mature on a date that was three years following issuance. The U.S. Convertible Debenture 4 was convertible into Convertible Debenture Units at a conversion price of \$3.20 per Convertible Debenture Unit. Each Convertible Debenture Unit consisted 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 \$4.40. The value of the warrants will be recorded when the issuance becomes probable. On July 26, 2019, U.S. Convertible Debenture 4 was amended such that, should the Company issue or sell common stock or equity securities convertible into common stock at a price less than the conversion price of the U.S. Convertible Debenture 4, the conversion price of U.S. Convertible Debenture 4 would be reduced to such issuance price, and the exercise price of the warrant issuable in connection with U.S. Convertible Debenture 4 would be exercisable at a price equal to 137.5% of the adjusted conversion price at the time of conversion. The U.S. Convertible Debenture 4 has other features, such as mandatory conversion in the event the common stock trades at a particular price over a specified period of time and required redemption in the event of a “Change in Control” of the Company. The U.S. Convertible Debenture 4 is an unsecured obligation of the Company and ranks pari passu in right of payment of principal and interest with all other unsecured obligations of the Company. The Company recorded a discount in the amount of \$416,653 on the U.S. Convertible Debenture 4. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$12,527 and \$24,509 on the U.S. Convertible Debenture 4, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$11,982 and \$23,964, respectively. On April 19, 2021, the U.S. Convertible Debenture 4 was amended as follows: (i) the conversion price of the debenture was reduced to \$1.20 per unit; and (ii) the maturity date was extended from October 25, 2021 to October 25, 2022. This amendment was accounted for as an extinguishment of debt, and the Company recorded a loss in the amount of \$271,164 during the year ended May 31, 2021. On October 25, 2022, the Company received a notice of demand from the lender, placing the U.S. Convertible Debt 4 into default status. On November 1, 2022, the Company entered into a forbearance agreement with the lender (the “Forbearance Agreement”) with the following terms: (i) the Company will pay the lender the amount of \$150,000 on November 2, 2022, and an additional \$50,000 each month for the following nine months, or a total of \$600,000; (ii) the default interest rate of 12% will be applied on the existing principal balances until paid in full; (iii) lender shall forbear from taking any further action based upon the existing default. As a result of this agreement, the Company capitalized \$3,283 of accrued interest. During the three months ended November 30, 2022, the Company made payments in the aggregate amount of \$200,000 pursuant to Forbearance Agreement. The Company recognized a gain in the amount of \$2,384 on this transaction during the three months ended November 30, 2022.

400,000 599,101

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 were to mature on a date that was three years following issuance. The Canaccord Debentures were convertible into Convertible Debenture Units at a conversion price of \$3.20 per Convertible Debenture Unit. Each Convertible Debenture Unit consisted 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 \$4.40. 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 8,081 shares of the Company’s common stock, and warrants to purchase 4,040 shares of common stock. There were no gains or losses recorded on these conversions because they were done in accordance with the terms of the original agreement. No discount was recorded for the fair value of the warrants issued. Because the market price of the Company’s common stock was less than the conversion price on the date of issuance of the Canaccord Debentures, a discount was not recorded on the Canaccord Debentures. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$131,628 and \$396,011 on the Canaccord Debentures, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$0 and \$264,383, respectively. On March 31, 2021, the Canaccord Debentures were amended as follows: (i) the conversion price of the debentures was reduced to \$1.20 per unit; (ii) the maturity date was extended from December 12, 2021 to December 12, 2022; (iii) the mandatory conversion threshold was reduced from a daily volume weighted average trading price of greater than \$4.80 per share to \$2.40 per share for the preceding ten consecutive trading days; and (iv) the exercise price of the warrants issuable upon conversion was reduced from \$4.40 to \$1.60 and the expiration of the warrants extended until March 31, 2024. This amendment was accounted for as an extinguishment of debt, and the Company recorded a loss in the amount of \$3,286,012 during the year ended May 31, 2021. During the year ended May 31, 2022, principal in the aggregate amount of \$281,000 was converted into an aggregate of 234,167 shares of the Company’s common stock, and warrants to purchase 117,084 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. On September 15, 2022, the Canaccord Debentures were further amended as follows: (i) the conversion price of debentures with a principal amount of \$7,965,278 was reduced to \$0.285 per unit, and these debentures along with accrued interest in the amount of \$132,755 were converted to 28,414,149 shares of common stock and warrants to purchase 14,207,075 shares of common stock; (ii) the conversion price of the remaining debentures with a principal amount of \$52,53,873 was reduced to \$0.40 per share; (iii) the maturity date of 50% of the remaining debentures with a principal amount of \$2,626,936.50 was extended to December 31, 2023, and the maturity date of 50% of the remaining debentures with a principal amount of \$2,626,936.50 was extended to December 31, 2024; and (iv) the conversion price of the warrants issuable upon conversion of the debentures was reduced to \$0.40. The value of the warrants will be determined when the issuance becomes probable. This amendment was accounted for as an extinguishment of debt, and a loss in the amount of \$4,547,660 was recorded on this transaction.

| | | |
|---|---------------------|----------------------|
| | 5,253,873 | 13,219,149 |
| Total - Convertible Notes Payable | \$ 7,906,102 | \$ 19,448,821 |
| Less: Discount | (-) | (-) |
| Convertible Notes Payable, Net of Discounts | <u>\$ 7,906,102</u> | <u>\$ 19,448,821</u> |

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| | <u>November 30, 2022</u> | <u>May 31, 2022</u> |
|--|--------------------------|---------------------|
| Total - Convertible Notes Payable, Net of Discounts, Current Portion, net of discount | \$ 400,000 | \$ 19,448,821 |
| Total - Convertible Notes Payable, Net of Discounts, Long-term Portion, net of discount | \$ 7,506,102 | \$ - |
| Discounts on notes payable amortized to interest expense – 3 months ended November 30, 2022 and 2021, respectively | \$ - | \$ 14,199 |
| Discounts on notes payable amortized to interest expense – 6 months ended November 30, 2022 and 2021, respectively | \$ - | \$ 35,496 |

Note 16 – Notes Payable

| | <u>November 30, 2022</u> | <u>May 31, 2022</u> |
|---|--------------------------|---------------------|
| <p>Debenture in the principal amount of \$250,000 (the “Debenture 1”) dated December 1, 2021, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 1 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 75,758 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 1 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$17,223 on Debenture 1. During the three and six months ended November 30, 2022 \$1,667 and \$3,333 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$187,500 on Debenture 1. During the three and six months ended November 30, 2022, \$18,145 and \$36,290 of this original issue discount was charged to operations, respectively. During three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$9,375 and \$18,750 on Debenture 1, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$8,333 and \$31,250, respectively.</p> | \$ 250,000 | \$ 250,000 |

| | | |
|---|---------|---------|
| <p>Debenture in the principal amount of \$250,000 (the “Debenture 2”) dated December 21, 2021, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 2 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 75,758 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 2 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$10,428 on Debenture 2. During the three and six months ended November 30, 2022, \$1,009 and \$2,018 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$187,500 on Debenture 2. During the three and six months ended November 30, 2022, \$18,145 and \$36,290 of this original issue discount was charged to operations, respectively. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$9,375 and \$18,750 on Debenture 2, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$8,333 and \$29,167, respectively.</p> | 250,000 | 250,000 |
|---|---------|---------|

Debenture in the principal amount of \$500,000 (the “Debenture 3”) dated December 21, 2021, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 3 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 151,516 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 3 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$19,335 on Debenture 3. During the three and six months ended November 30, 2022, \$1,871 and \$3,742 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$375,000 on Debenture 3. During the three and six months ended November 30, 2022, \$36,290 and \$72,581 of this original issue discount was charged to operations, respectively. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$18,750 and \$37,500 on Debenture 3, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$16,667 and \$58,125, respectively.

500,000 500,000

Debenture in the principal amount of \$500,000 (the “Debenture 4”) dated January 4, 2022, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 4 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 151,516 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 4 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$17,154 on Debenture 4. During the three and six months ended November 30, 2022, \$1,715 and \$3,431 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$375,000 on Debenture 4. During the three and six months ended November 30, 2022, \$37,500 and \$75,000 of this original issue discount was charged to operations, respectively. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$18,750 and \$37,500 on Debenture 4, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$16,667 and \$55,417, respectively.

500,000 500,000

| | <u>November 30, 2022</u> | <u>May 31, 2022</u> |
|--|--------------------------|---------------------|
| <p>Debenture in the principal amount of \$500,000 (the “Debenture 5”) dated January 4, 2022, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 5 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 151,516 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 5 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$17,154 on Debenture 5. During the three and six months ended November 30, 2022, \$1,715 and \$3,431 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$375,000 on Debenture 5. During the three and six months ended November 30, 2022, \$37,500 and \$75,000 of this original issue discount was charged to operations, respectively. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$18,750 and \$37,500 on Debenture 5, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$16,667 and \$55,417, respectively.</p> | 500,000 | 500,000 |
| <p>Debenture in the principal amount of \$500,000 (the “Debenture 6”) dated January 4, 2022, which bears interest, payable quarterly commencing six months after issuance, at a rate of 15% per annum. Principal on Debenture 6 is due in two equal installments 18 months after issuance and at maturity on July 10, 2024. With the Debenture, the purchaser received warrants to purchase 151,516 shares of common stock at an exercise price of \$1.65 per share of common stock. The Company shall make additional quarterly payments under Debenture 6 beginning 90 days after the end of its first fiscal quarter after January 10, 2025, and for the next five years, on an annual basis, equal to the greater of (a) 15% of the original principal amount, or (b) the purchaser’s pro rata portion of 5% of the distributions the Company receives as a result of the Quinn River Joint Venture during the prior fiscal year. The Company recorded a discount in the amount of \$17,154 on Debenture 6. During the three and six months ended November 30, 2022, \$1,715 and \$3,431 of this discount was charged to operations, respectively. The Company recorded an original issue discount in the amount of \$375,000 on Debenture 6. During the three and six months ended November 30, 2022, \$37,500 and \$75,000 of this original issue discount was charged to operations, respectively. During the three and six months ended November 30, 2022, the Company accrued interest in the amounts of \$18,750 and \$37,500 on Debenture 6, respectively. During the three and six months ended November 30, 2022, the Company made interest payments in the amounts of \$16,667 and \$55,714, respectively.</p> | 500,000 | 500,000 |
| Total | \$ 2,500,000 | \$ 2,500,000 |
| Original Issue Discount | 1,875,000 | 1,875,000 |
| Notes Payable, Gross | 4,375,000 | 4,375,000 |
| Less: Discount | (1,291,887) | (1,681,434) |
| Notes Payable, Net of Discount | <u>\$ 3,083,113</u> | <u>\$ 2,693,566</u> |
| Discounts on notes payable amortized to interest expense – 3 months ended November 30, 2022 and 2021, respectively | \$ 194,773 | \$ - |
| Discounts on notes payable amortized to interest expense – 6 months ended November 30, 2022 and 2021, respectively | \$ 389,547 | \$ - |

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Aggregate maturities of notes payable and convertible notes payable as of November 30, 2022 are as follows:

For the twelve months ended November 30,

| | | |
|------------|----|-------------------|
| 2023 | \$ | 1,650,000 |
| 2024 | | 5,003,051 |
| 2025 | | 4,128,051 |
| 2026 | | 375,000 |
| 2027 | | 1,125,000 |
| Thereafter | | - |
| Total | \$ | <u>12,281,102</u> |

During the year ended May 31, 2022, the Company offered for sale a maximum of \$5,500,000 of debentures (the “2021 Debentures”) and warrants to purchase shares of the Company’s common stock at a price of \$1.65 per share in an aggregate amount equal to one-half of the aggregate purchase price for the 2021 Debentures (the “2021 Debenture Warrants”) (collectively, the “November 2021 Offering”). During the year ended May 31, 2022, the Company received the amount of \$2,500,000 pursuant to the November 2021 Offering and issued an aggregate of 757,576 warrants to purchase its common stock at an exercise price of \$1.65 per share to the investors.

Note 17 – Lease Liabilities - Financing Leases

| | <u>November 30,</u> <u>2022</u> | <u>May 31,</u> <u>2022</u> |
|--|------------------------------------|-------------------------------|
| | (unaudited) | |
| Financing lease obligation under a lease agreement for extraction equipment dated March 14, 2022 in the original amount of \$359,900 payable in forty-eight monthly installments of \$10,173 including interest at the rate of 15.89%. During the three months ended November 30, 2022, the Company made principal and interest payments on this lease obligation in the amounts of \$17,586 and \$12,933, respectively. During the six months ended November 30, 2022, the Company made principal and interest payments on this lease obligation in the amounts of \$34,493 and \$27,224, respectively. | \$ 314,500 | \$ 348,993 |
| Total | \$ 314,500 | \$ 348,993 |
| Current portion | \$ 77,697 | \$ 71,813 |
| Long-term maturities | 236,803 | 277,180 |
| Total | <u>\$ 314,500</u> | <u>\$ 348,993</u> |

Aggregate maturities of lease liabilities – financing leases as of November 30, 2022 are as follows:

For the period ended November 30,

| | | |
|------------|----|----------------|
| 2023 | \$ | 77,697 |
| 2024 | | 90,952 |
| 2025 | | 106,468 |
| 2026 | | 39,383 |
| 2027 | | - |
| Thereafter | | - |
| Total | \$ | <u>314,500</u> |

Note 18 – Stockholders’ Equity

The Company’s authorized capital stock consists of 187,500,000 shares of common stock, par value \$0.0001, at November 30, 2022 and 2021, and 5,000,000 shares of preferred stock, par value \$0.001 per share.

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On September 15, 2022, the Company effected a reverse stock split of its issued and outstanding common stock (“the “Reverse Split”) at a ratio of 1-for-4, whereby four shares of the Company’s common stock issued and outstanding were exchanged for one share. The number of shares of common stock issued and outstanding immediately before the Reverse Split was 290,070,272; the number of shares outstanding immediately after the reverse split was 72,517,570, a decrease of 217,552,702 shares. All share and per-share information in these financial statements have been adjusted to reflect the effects of the Reverse Split. As a result of the split, an additional 576 shares were issued due to rounding.

Common stock transactions for the six months ended November 30, 2022

Common Stock and Warrants Issued upon Conversion of Notes Payable:

On September 15, 2022, the Company issued 28,414,149 shares and three-year warrants to acquire 14,207,075 shares of common stock at a price of \$0.40 per share as a result of the mandatory conversion provided in the amendments to the Canaccord Debentures. The conversion was for the total amount of \$8,098,033, of which \$7,965,278 was principal and \$132,755 was accrued interest. (See note 15 for details). A loss in the amount of \$4,547,660 was recorded in connection with the extinguishment of the Canaccord Debentures. No gain or loss was recorded on the issuance of the shares because the conversion was made pursuant to the terms of the Restructured Canaccord Debenture Agreement.

On September 15, 2022, the Company issued 12,051,397 shares and three-year warrants to acquire 6,025,700 shares of common stock at a price of \$0.40 per share as a result of the mandatory conversion provided in the amendments to the U.S. Convertible Debenture holders. The conversion was for the total amount of \$3,434,647, of which \$3,378,342 was principal and \$56,305 was accrued interest. (See note 15 for details). A loss in the amount of \$2,111,699 was recorded in connection with the extinguishment of the U.S. Convertible Debentures 1 and 2. No gain or loss was recorded on the issuance of the shares because the conversion was made pursuant to the terms of the Restructured U.S. Convertible Debentures 1 and 2 Agreements.

Other Warrant Transactions

From December 1, 2021, through January 4, 2022, the Company issued \$2,500,000 in debentures and issued 757,576 warrants in connection with these debentures. Each warrant allows the holder to purchase one share of the Company’s common stock at an exercise price of \$1.65 per share for three years after its date of issuance.

On September 15, 2022, the Company amended \$18,846,721 in outstanding debentures to reduce the conversion price of the debentures from \$1.20 per unit to \$0.40 per unit, increasing the warrants issuable upon conversion of such debentures from 3,400,652 to 6,801,298. As amended, each warrant issuable pursuant to the conversion of such debentures is exercisable for one share of the Company’s common stock at a price of \$0.40 per share.

Common stock transactions for the six months ended November 30, 2021

Common Stock and Warrants Issued upon Conversion of Notes Payable:

On June 17, 2021, the Company issued 234,167 shares of common stock and three-year warrants to acquire 117,083 shares of common stock at a price of \$4.40 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 \$281,000. No gain or loss was recorded on this transaction because the conversion was made pursuant to the terms of the original agreement.

Other Warrant transactions

The Company values warrants using the Black-Scholes valuation model utilizing the following variables. On March 31, 2021, the Company reduced the conversion price of the Canaccord Debentures from \$3.20 per unit to \$1.20 per unit, increasing the warrants issuable upon conversion of the Canaccord Debentures from 2,102,100 to 5,629,094. As amended, each warrant issuable pursuant to conversion of the Canaccord Debentures is exercisable for one share of the Company’s common stock at a price equal to \$1.60 per share until March 31, 2024.

In April 2021, the Company amended \$6,229,672 in outstanding debentures to reduce the conversion price of the debentures from \$3.20 per unit to \$1.20 per unit, increasing the warrants issuable upon conversion of such debentures from 973,387 to 2,595,697. As amended, each warrant issuable pursuant to conversion of such debentures is exercisable for one share of the Company’s common stock at a price equal to 137.5% of the conversion price (presently \$1.65 per share) until July 14, 2024.

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The following table summarizes the significant terms of warrants outstanding at November 30, 2022. 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 |
|--------------------------|--------------------------------|---|---|--------------------------------|---|
| \$ 0.40 | 20,232,775 | 2.79 | 0.40 | 20,232,775 | 0.40 |
| 1.60 | 191,094 | 2.79 | \$ 1.60 | 191,094 | \$ 1.60 |
| 1.65 | 757,580 | 2.08 | 1.65 | 757,580 | 1.65 |
| 2.40 | 781,250 | 0.45 | 2.40 | 781,250 | 2.40 |
| | <u>21,962,699</u> | <u>2.69</u> | <u>\$ 0.53</u> | <u>21,962,699</u> | <u>\$ 0.53</u> |

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

| | Number of Shares | Weighted Average Exercise Price |
|---|-------------------|---------------------------------|
| Warrants outstanding at May 31, 2021 | 13,499,411 | \$ 2.12 |
| Granted | 874,666 | \$ 1.65 |
| Exercised | - | \$ - |
| Cancelled / Expired | (12,644,153) | \$ 2.09 |
| Warrants outstanding at May 31, 2022 | 1,729,924 | \$ 1.98 |
| Granted | 20,232,775 | \$ 0.40 |
| Exercised | - | \$ - |
| Cancelled / Expired | - | \$ - |
| Warrants outstanding at November 30, 2022 | <u>21,962,699</u> | <u>\$ 0.53</u> |

Unit Warrants

In February and March 2018, in connection with the Westpark offering, the Company issued five-year warrants to purchase 51,310 of the Company's units at an exercise price of \$5.00 per unit. Each unit consists of four shares of common stock and one warrant to purchase a share of common stock for \$3.00

On June 20, 2018, in connection with the special warrant offering, the Company issued Canaccord Genuity Corp. 579,461 three-year broker warrants at an exercise price of C\$1.80 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\$2.60 per share. These warrants were valued at \$1,495,373, and this amount was charged to operations during the year ended May 31, 2019. These warrants expired on June 20, 2021.

On December 12, 2018, in connection with the issuance of the Canaccord Debentures, the Company issued Canaccord Genuity Corp., as compensation 268,680 three-year agent and advisory warrants. Each warrant entitles the holder to purchase a unit for \$3.20, 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 \$4.40 per share. The Company, in connection with the issuance of the Canaccord Debentures, also issued to National Bank Financial Inc., as compensation, 67,170 three-year agent and advisory warrants. Each warrant entitles the holder to purchase a unit for \$3.20, 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 \$4.40 per share. The aggregate value of these warrants was \$874,457, which was charged to operations during the year ended May 31, 2019. These warrants expired on December 12, 2021.

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

Note 19 – Related Party Transactions

As of November 30, 2022 and May 31, 2022, 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 August 17, 2022, the Company granted 50,000 shares of restricted common stock to Charlene Soco, an officer of the Company, effective February 4, 2022. The shares shall become fully vested, and the restrictions removed, on December 31, 2022 assuming Ms. Soco remains employed by Alternative Solutions and/or the Company on such date.

During the six months ended November 30, 2022, the Company made payments of \$5,000 to each of its three directors, for a total of \$15,000.

As of May, 2019 the Company entered into a monthly retainer arrangement with a company called The Workshop LLC located in Miami Florida. The Workshop LLC provided services related to marketing and advertising for the Company and its subsidiaries, including design work for marketing materials. The Workshop LLC is owned by Jordan Binder, the son of the former CEO of the Company, Jeff Binder. Jeff Binder resigned as CEO effective August 23rd, 2022 after serving seven years in that position. As of December 31, 2022 the retainer agreement between The Workshop LLC and the Company was ended.

Note 20 – Income Taxes

The following table summarizes the Company's income tax accrued for the three and six months ended November 30, 2022:

| | For the Three Months Ended November 30, 2022 | For the Three Months Ended November 30, 2021 |
|--|---|---|
| Loss before provision for income taxes | \$ (7,596,688) | \$ (208,255) |
| Provision for income taxes | \$ 516,691 | \$ 140,717 |
| Effective tax rate | 6.8% | 67.5% |

| | For the Six Months Ended November 30, 2022 | For the Six Months Ended November 30, 2021 |
|--|---|---|
| Loss before provision for income taxes | \$ (8,409,728) | \$ 547,684 |
| Provision for income taxes | \$ 1,035,776 | \$ 469,057 |
| Effective tax rate | 12.3% | 85.6% |

Due to the accrual of taxes related to Section 280E of the Internal Revenue Code, as amended, the Company has an uncertain tax accrual that is currently being expensed as a change in estimate. The Company has net operating losses that it believes are available to it to offset this expense; however, there can be no assurance under current interpretations of tax laws for cannabis companies that the Company will be allowed to use these net operating losses to offset Section 280E tax expenses.

Note 21 – Commitments and Contingencies*Lease Arrangements*

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

- A lease that commenced in February 2019 for 1,400 square feet of office space located at 1718 Industrial Road, Las Vegas, NV 89102, for a term of eighteen months, and for rent of \$1,785 per month. In June 2020, this lease was extended to August 31, 2022, with the monthly rent increasing to \$1,866.70 until September 2021, after which time it will be subject to annual increases of 3%. The lease was extended again on April 1, 2022, effective September 1, 2022 until August 31, 2024. The monthly rent will increase on September 1, 2022 to \$2,084.14 with annual increases of 3%. (See Note 23 for details).
- A lease that commenced January 2018 for 1,000 square feet of storefront space plus 5,900 square feet of warehouse space located at 1800 Industrial Road, Suites 102, 160, and 180, Las Vegas, NV 89102, for a term of five years and for initial base rent of \$7,500 per month, with annual increases of 3%. In February 2020, this lease was extended to February 28, 2030 and the monthly rent was increased by \$600.

- A lease that commenced in February 2019 for 2,504 square feet of office space located at 1800 Industrial Road, Suite 100, Las Vegas, NV 89102 for a term of eighteen months and for initial rent 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 rent increases of 3%.
- A lease that commenced in January 2016 for 22,000 square feet of warehouse space located at 203 E. Mayflower Avenue, North Las Vegas, NV 89030 for a term of five years and initial rent of \$11,000 per month, which amount increased to \$29,000 per month on January 1, 2020. In June 2020, this lease was extended to February 28, 2026, and the monthly rent was amended as follows: \$25,000 for the months of April, May, and June 2020; \$22,500 for the months of March 2021 through February 2022; \$23,175 for the months of March 2022 through February 2023; 23,870 for the months of March 2023 through February 2024; \$24,586 for the months of March 2024 through February 2025; and \$25,323 for the months of March 2025 through February 2026.
- A lease that commenced on May 17, 2022 for approximately 20 acres of land for purposes of developing a cultivation facility along the Quinn River in Nevada at a cost of \$3,500 per quarter beginning on or before May 31, 2022 (the “Quinn River Land Lease”). The Quinn River Land Lease has a term of 9 years, with two-year renewal options. The lessee under this Lease is CLS Nevada, Inc. See note 3.

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, 2022.

Note 22 – Subsequent Events

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

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

HISTORY AND OUTLOOK

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

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

CLS Labs was originally incorporated in the state of Nevada on May 1, 2014 under the name RJF Labs, Inc. before changing its name to CLS Labs, Inc. on October 24, 2014. It was formed to commercialize a proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter.

On April 17, 2015, CLS Labs took its first step toward commercializing its proprietary methods and processes by entering into agreements through its wholly owned subsidiary, CLS Labs Colorado, with certain Colorado entities. 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 (hemp) 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 and the extraction and production process utilized in the patent is currently prohibited in Nevada. The Company is currently pursuing options to generate revenue from the patent, including the possible sale of the patent.

We intend to generate revenues through: (i) the processing of cannabis for others, and (ii) the purchase of cannabis (or cultivation through our joint venture) 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 have established a position as one of the premier cannabinoid extraction and processing companies in the industry. We have already created our own brand of concentrates for consumer use, which we sell wholesale to cannabis dispensaries. We believe that we have created 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. At that time, we applied for regulatory approval to own an interest in the Oasis LLCs, which approval was received on June 21, 2018. Just prior to closing, the parties agreed that we 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. We received final regulatory approval to own our interest in the Oasis LLCs through Alternative Solutions under the final structure of the transaction on April 26, 2022.

On October 31, 2018, the Company, CLS Massachusetts, Inc., a Massachusetts corporation and a wholly-owned subsidiary of the Company (“CLS Massachusetts”), and In Good Health, Inc., a Massachusetts corporation (“IGH”), entered into an Option Agreement (the “IGH Option Agreement”). Under the terms of the IGH Option Agreement, CLS Massachusetts had an exclusive option to acquire all of the outstanding capital stock of IGH (the “IGH Option”) during the period beginning on the earlier of the date that is one year after the effective date of the conversion and December 1, 2019 and ending on the date that was 60 days after such date. (See Note 3 for more detail).

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 was evidenced by a secured promissory note of IGH, which bore interest at the rate of 6% per annum and was to mature on October 31, 2021.

On February 4, 2020, CLS Massachusetts exercised the IGH Option and IGH subsequently asserted that CLS Massachusetts’ exercise was invalid. 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 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 February 27, 2020, IGH informed CLS Massachusetts that it did not plan to make further payments under the IGH Note on the theory that the break-up fee excused additional payments.

On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and a secured promissory note dated and executed by IGH in favor of us and effective June 11, 2021 (the “IGH Settlement Note”). Pursuant to the IGH Settlement Note, IGH paid us \$3,000,000, \$1,000,000 of which was paid on or before July 12, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments, which began on August 12, 2021. During the year ended May 31, 2022, we received \$2,740,820 under the IGH Settlement Note, which included \$2,666,670 in principal and \$74,150 in accrued interest. During the six months ended November 30, 2022, we received \$348,165 was due under the IGH Settlement Note, which included \$333,333 in principal and \$14,832 in accrued interest. As of November 30, 2022, the IGH Settlement Note has been paid in full. We record amounts paid under the IGH Settlement Note as gains when payments are received

On October 20, 2021, we entered into a management services agreement (the “Quinn River Joint Venture Agreement”) through our 50% owned subsidiary, Kealii Okamalu, LLC (“Kealii Okamalu”), with CSI Health MCD LLC (“CSI”) and a commission established by the authority of the Tribal Council of the Fort McDermitt Paiute and Shoshone Tribe (the “Tribe”). The purpose of the Quinn River Joint Venture Agreement is to establish a business (the “Quinn River Joint Venture”) to grow, cultivate, process and sell cannabis and related products. (See Note 3 for more detail) The Quinn River Joint Venture Agreement has a term of 10 years plus a 10 year renewal term from the date the first cannabis crop produced is harvested and sold. The first cannabis crop was harvested in September of 2022. Pursuant to the Quinn River Joint Venture Agreement, Kealii Okamalu leased approximately 20-30 acres of the Tribe’s land located along the Quinn River at a cost of \$3,500 per quarter and managed the design, finance and construction of a cannabis cultivation facility on such tribal lands (the “Cultivation Facility”). Kealii Okamalu now also manages the ongoing operations of the Cultivation Facility and related business, including, but not limited to, the cultivation of cannabis crops, personnel staffing, product packaging, testing, marketing and sales. Packaged products are branded as “Quinn River Farms.” We have provided up to 10,000 square feet of warehouse space at our Las Vegas facility for the Quinn River Joint Venture product, and have preferred vendor status including the right to purchase cannabis flower and the business’s cannabis trim at favorable prices. Kealii Okamalu will contribute up to \$6 million (the “Invested Amount”) towards the construction of the Cultivation Facility and the working capital for the Quinn River Joint Venture. This Invested Amount will be repaid from a portion of the net income of the Quinn River Joint Venture otherwise payable to CSI and the Tribe at the rate of \$750,000 per quarter for eight quarters. Once the Invested Amount is paid in full, Kealii Okamalu will receive one-third of the net profits of the Quinn River Joint Venture.

COVID-19 Update

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.

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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 Cannabis Compliance Board (“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. The City of Las Vegas has since extended the permit to 6 months before it needs to be renewed. Serenity Wellness Center LLC dba Oasis Cannabis was issued its most recent curbside sales permit on January 1, 2023 which is set to expire on June 30, 2023. Upon expiration every 6 months, 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.

COVID-19 cases increased at a significant rate in November and December 2021 with the arrival of the Omicron variant, but then sharply dropped off as we started 2022. As a result, our curbside and delivery programs have now returned to approximately 20% of total dispensary revenue. In addition, COVID-19 restrictions and mask mandates have ceased. The number of customers and transactions at our dispensary have increased from 64,886 for the three months ending November 30, 2021 to 83,744 for the three months ending November 30, 2022. This increase in customer traffic of 18,858 visits represents a 29% increase over the same period last year. The average amount of each purchase per visit has decreased from \$55.03 for the three months ending November 30, 2021 to \$44.93 for the three months ending November 30, 2022, largely due to an increase in competitive pricing at other dispensaries which have forced us to reduce our prices and offer deeper discounts.

Our supply chain remains challenging at times with respect to our purchases on non-cannabis items; the purchase of cannabis-related items has returned to normal and prices for wholesale cannabis trim have fallen below pre-pandemic levels. In recent months the labor market has been very tight for us. Although we have been able to employ sufficient staff to maintain operations at a normal level, wage increases have averaged about 15% annually in order for us to do so.

The gradual return to more normal operations from the COVID-19 pandemic is continuing to evolve and the ways that our business may respond to meet the needs of our customers cannot, at this time, be fully known.

Results of Operations for the Three Months Ended November 30, 2022 and November 30, 2021

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

| | Three Months Ended November 30, 2022 | Three Months Ended November 30, 2021 |
|---|---|---|
| Revenue | 100% | 100% |
| Cost of Goods Sold | 51% | 50% |
| Gross Margin | 49% | 50% |
| Selling, General, and Administrative Expenses | 58% | 56% |
| Gain on Settlement of Notes Receivable | 0% | 10% |
| Loss on Extinguishment of Debt | 110% | - |
| Provision for Income Tax | 9% | 3% |

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

| | Three Months Ended November 30, 2022 | Three Months Ended November 30, 2021 |
|---|---|---|
| Number of Customers Served (Dispensary) | 83,744 | 64,886 |
| Revenue | \$ 6,074,177 | \$ 5,414,002 |
| Gross Profit | \$ 3,002,444 | \$ 2,729,812 |
| Gain on Note Receivable | \$ - | \$ 522,246 |
| Loss on Extinguishment of Debt | \$ (6,659,359) | - |
| Net (Loss) Income | \$ (8,215,954) | \$ (345,472) |
| EBITDA (1) | \$ (6,850,100) | \$ 382,268 |

- (1) EBITDA is a non-GAAP financial performance measures and should not be considered as alternatives to net income(loss) or any other measure derived in accordance with GAAP. This non-GAAP measure has limitations as an analytical tool and should not be considered in isolation or as substitutes for analysis of our financial results as reported in accordance with GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. As required by the rules of the SEC, we provide below a reconciliation of this non-GAAP financial measure contained herein to the most directly comparable measure under GAAP. Management believes that EBITDA provides relevant and useful information, which is widely used by analysts, investors and competitors in our industry as well as by our management. By providing this non-GAAP profitability measure, management intends to provide investors with a meaningful, consistent comparison of our profitability measures for the periods presented.

Reconciliation of net loss for the three months ended November 30, 2022 and 2021 to EBITDA:

| | Three Months Ended November 30, 2022 | Three Months Ended November 30, 2021 |
|---|---|---|
| Net Loss attributable to CLS Holdings, Inc. | \$ (8,215,954) | \$ (345,472) |
| Add: | | |
| Interest expense, net | \$ 608,905 | \$ 407,880 |
| Provision for income taxes | \$ 516,691 | \$ 140,717 |
| Depreciation and amortization | \$ 240,258 | \$ 179,143 |
| EBITDA | \$ (6,850,100) | \$ 382,268 |

Revenues

We had revenue of \$6,074,177 during the three months ended November 30, 2022, an increase of \$660,175, or 12%, compared to revenue of \$5,414,002 during the three months ended November 30, 2021. Our cannabis dispensary accounted for \$3,792,804, or 62%, of our revenue for the three months ended November 30, 2022, an increase of \$201,405, or 6%, compared to \$3,591,399 during the three months ended November 30, 2021. Dispensary revenue increased during the second quarter of fiscal year 2023 because our average sales per day increased from \$39,466 during the second quarter of fiscal year 2022 to \$41,679 during the second quarter of fiscal year 2023. Our cannabis production accounted for \$2,281,373, or 38%, of our revenue for the three months ended November 30, 2022, an increase of \$458,770 or 25%, compared to \$1,822,603 for the three months ended November 30, 2021. The increase in production revenues for the second quarter of fiscal year 2023 was primarily due to an increase in our THC distillate sales of almost \$1,000,000, as well as sales to 10 new dispensaries and significant increases in existing customer order size and frequency. These improvements occurred as a result of our addition of a new sales director, an improvement in our product mix, the introduction of new products, and the procurement of higher quality materials. The increase was also due to greater revenue from third parties for whom we manufactured and processed products.

Cost of Goods Sold

Our cost of goods sold for the three months ended November 30, 2022 was \$3,071,733, an increase of \$387,543, or 14%, compared to cost of goods sold of \$2,684,190 for the three months ended November 30, 2021. The increase in cost of goods sold for the three months ended November 30, 2022 was due primarily to an increase in revenue and more aggressive competitive discounts. Cost of goods sold was 51% of sales during the three months ended November 30, 2022 resulting in a gross margin of 49%. Cost of goods sold was 50% for the three months ended November 30, 2021 resulting in a gross margin of 50%. Costs of goods sold as a percentage of revenue increased due to aggressive pricing in response to a very competitive market. Gross margin was slightly under our target of 50% for the second quarter of fiscal year 2023. Cost of goods sold during the second quarter of the 2023 fiscal year primarily consisted of \$2,697,590 of product cost, \$200,942 of state and local fees and taxes, and \$132,426 of supplies and materials.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, increased by \$453,126, or approximately 15%, to \$3,505,559 during the three months ended November 30, 2022, compared to \$3,052,433 for the three months ended November 30, 2021. The increase in SG&A expenses for the three months ended November 30, 2022 was primarily due to increases in costs associated with operating the Oasis LLCs.

SG&A expense during the three months ended November 30, 2022 was primarily attributable to an aggregate of \$2,801,960 in costs associated with operating the Oasis LLCs, an increase of \$320,320 compared to \$2,481,640 during the second quarter of fiscal 2022. The major components of the \$320,320 increase in SG&A associated with the operation of the Oasis LLCs during the three months ended November 30, 2022 compared to the three months ended November 30, 2021 were as follows: payroll and related costs of \$1,412,510 compared to \$1,140,962; lease, facilities and office costs of \$671,449 compared to \$635,038; professional fees of \$241,594 compared to \$58,143; depreciation and amortization of \$165,961 compared to \$103,927; and taxes and licenses of \$108,248 compared to \$26,175. Payroll costs increased during the second quarter of fiscal 2023 primarily due to increases in salaries of our employees related to the national labor shortage and due to an increase in the number of employees in our manufacturing division as we planned for the rollout of our pre-roll division. Payroll costs also increased due to costs incurred in connection with our response to COVID-19. Lease, facilities and office costs increased due to our efforts to prepare our facilities for the new pre-roll division by purchasing equipment and implementing compliance procedures applicable to this new division. Lease, facilities and office costs also increased due to costs incurred in connection with our response to COVID-19. Professional fees increased primarily due to legal fees related to regulatory compliance issues. Travel increased due to tribal visits in New Mexico and Northern Nevada. These increases were partially offset by a decrease in sales and marketing costs of \$165,679 due to a concerted effort to reduce professional outsourced marketing programs.

Finally, SG&A increased by \$132,806 during the three months ended November 30, 2022 as a result of an increase in the expenses associated with the ongoing implementation of other aspects of our business plan and our general corporate overhead to \$703,599 from \$570,793 during the three months ended November 30, 2021. The major components of this increase compared to the second quarter of fiscal 2022 was an increase in professional fees to \$538,761 compared to \$264,444 in the previous period due to increased legal fees. The Company is actively disputing the amount of fees charged by our prior legal counsel.

Loss on Extinguishment of Debt

During the three months ended November 30, 2022, certain of our convertible debentures were amended to (i) permit mandatory conversion of \$11,343,619 in principal plus \$189,061 in accrued interest into units at a reduced rate of \$0.285 per unit; (ii) decrease the conversion price of the remaining debentures to \$0.40 per unit; (iii) reduce the mandatory conversion VWAP provision from \$2.40 to \$0.80; and (iv) change the maturity date so that half of the remaining balance matures on December 31, 2023 and the remaining on December 31, 2024. We recognized a loss on the amendment of the debt in the amount of \$6,659,359 in connection with these amendments during the second quarter of fiscal 2023. There was no comparable transaction in the prior year.

Gain on Settlement of Debt

During the three months ended November 30, 2022, our U.S. Convertible Debenture 4 in the amount \$599,101 in principal and accrued interest in the amount of \$3,283, went into default. We entered into a forbearance agreement with the lender, whereby we would pay the amount of \$600,000 in installments beginning in November of 2022 through August of 2023. As a result of this agreement, we recognized a gain on the settlement of debt in the amount of \$2,384. There is no comparable transaction in the prior period.

Gain on Settlement of Note Receivable

During the three months ended November 30, 2022, we recorded a gain on the settlement of the IGH Settlement Note in the amount of \$0 compared to \$522,246 for the first half of fiscal 2022. This gain on the settlement arose after IGH notified us on February 27, 2021, that it did not plan to make further payments in accordance with the terms of the IGH Note on the theory that the Break-Up Fee excused such additional payments. We vehemently disagreed and litigation ensued. On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and executed the \$3,000,000 IGH Settlement Note. Pursuant to the IGH Settlement Note, IGH paid us \$1,000,000 on or before July 21, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments, and the final installment was paid in July 2022.

Loss on Equity Investment

During the three months ended November 30, 2022, we had income on equity investment in the amount of \$80,319; there was no comparable transaction in the prior period. The Company, through its 50% owned subsidiary Kealii Okamalu, owns a one-third interest in the Quinn River Joint Venture. The second quarter of fiscal 2023 loss represents our share of the results of the Quinn River Joint Venture. The Quinn River Joint Venture completed its first harvest during the three months ended November 30, 2022, and the Company purchased inventory in the amount of \$952,124 from the Quinn River Joint Venture.

Interest Expense, Net

Our interest expense was \$608,905 for the three months ended November 30, 2022, an increase of \$201,025, or 49%, compared to \$407,880 for the three months ended November 30, 2021. The increase in interest expense was primarily due to the original issue discount associated with the 2021 Debentures in the amount of \$185,081 which was amortized to interest expense during the three months ended November 30, 2022. There was no comparable charge during the second quarter of the prior fiscal year. In addition, the increase in net interest expense for the second quarter of fiscal 2023 was due to an increase in interest expense of \$20,450 in connection with the 2021 Debentures in the principal amount of \$2,500,000 (net of original issue discount of \$1,875,000), which we issued in the November 2021 Debenture Offering. The increase in net interest expense for the second quarter of fiscal 2023 was partially offset by a decrease in the amortization of discounts on debentures in the amount of \$4,506.

Provision for Income Taxes

We recorded a provision for income taxes in the amount of \$516,691 during the three months ended November 30, 2022 compared to \$140,717 during the three months ended November 30, 2021. Although we have net operating losses that we believe are available to us to offset this entire tax liability, which arises under Section 280E of the Code because we are a cannabis company, as a conservative measure, we have accrued this liability.

Net Loss

Our net loss for the three months ended November 30, 2022 was \$8,205,367 compared to a net loss of \$348,972 for the three months ended November 30, 2021, an increase of \$7,856,395, or 2,251%. The net loss amount was primarily due to a one-time entry of \$6,815,402 for the Loss on Extinguishment of Debt resulting from the debt restructuring and the conversion of \$11,523,680 of debt to equity.

Non-Controlling Interest

During the three months ended November 30, 2022 and 2021, the loss (income) associated with the non-controlling interest in Kealii Okamalu was (\$10,587) and \$3,500, respectively. This amount is comprised of the third-party portion of the operating loss of the Quinn River Joint Venture and our loss on equity investment.

Net Loss Attributable to CLS Holdings USA, Inc.

Our net loss attributable to CLS Holdings USA, Inc. for the three months ended November 30, 2022 was \$8,215,954 compared to a net loss of \$345,472 for the three months ended November 30, 2021, a decrease of \$7,870,482 or 2,278%.

Results of Operations for the Six Months Ended November 30, 2022 and November 30, 2021

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

| | Six Months Ended November 30, 2022 | Six Months Ended November 30, 2021 |
|---|---|---|
| Revenue | 100% | 100% |
| Cost of Goods Sold | 50% | 48% |
| Gross Margin | 50% | 52% |
| Selling, General, and Administrative Expenses | 55% | 54% |
| Gain on Settlement of Notes Receivable | 3% | 16% |
| Loss on Extinguishment of Debt | 55% | - |
| Provision for Income Tax | 9% | 4% |

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

| | Six Months Ended November 30, 2022 | Six Months Ended November 30, 2021 |
|---|---|---|
| Number of Customers Served (Dispensary) | 166,688 | 129,978 |
| Revenue | \$ 12,119,104 | \$ 10,914,712 |
| Gross Profit | \$ 6,044,641 | \$ 5,626,055 |
| Gain on Note Receivable | \$ (348,165) | \$ (1,696,328) |
| Net (Loss) Income | \$ (9,364,432) | \$ 82,127 |
| Loss on Extinguishment of Debt | \$ 6,659,359 | \$ - |
| EBITDA (1) | \$ (6,475,888) | \$ 1,734,111 |

- (1) EBITDA is a non-GAAP financial performance measures and should not be considered as an alternative to net income(loss) or any other measure derived in accordance with GAAP. This non-GAAP measure has limitations as an analytical tool and should not be considered in isolation or as substitutes for analysis of our financial results as reported in accordance with GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. As required by the rules of the SEC, we provide below a reconciliation of this non-GAAP financial measure contained herein to the most directly comparable measure under GAAP. Management believes that EBITDA provides relevant and useful information, which is widely used by analysts, investors and competitors in our industry as well as by our management. By providing this non-GAAP profitability measure, management intends to provide investors with a meaningful, consistent comparison of our profitability measures for the periods presented.

Reconciliation of net loss for the six months ended November 30, 2022 and 2021 to EBITDA:

| | Six Months Ended November 30, 2022 | Six Months Ended November 30, 2021 |
|---|---|---|
| Net Loss attributable to CLS Holdings, Inc. | \$ (9,364,432) | \$ 82,127 |
| Add: | | |
| Interest expense, net | \$ 1,375,575 | \$ 826,472 |
| Provision for income taxes | \$ 1,035,776 | \$ 469,057 |
| Depreciation and amortization | \$ 477,193 | \$ 356,455 |
| EBITDA | \$ (6,475,888) | \$ 1,734,111 |

Revenues

We had revenue of \$12,119,104 during the six months ended November 30, 2022, an increase of \$1,204,392, or 11%, compared to revenue of \$10,914,712 during the six months ended November 30, 2021. Our cannabis dispensary accounted for \$7,681,361, or 63%, of our revenue for the six months ended November 30, 2022, an increase of \$344,387, or 5%, compared to \$7,336,974 during the six months ended November 30, 2021. Dispensary revenue increased during the first half of fiscal year 2023 because our average sales per day increased from \$40,093 during the first half of fiscal year 2022 to \$41,975 during the first half of fiscal year 2023. Our cannabis production accounted for \$4,437,743, or 37%, of our revenue for the six months ended November 30, 2022, an increase of \$860,005 or 24%, compared to \$3,577,738 for the six months ended November 30, 2021. The increase in production revenues for the first half of fiscal year 2023 was primarily due to an increase in our THC distillate sales of almost \$1,000,000, as well as sales to 10 new dispensaries and significant increases in existing customer order size and frequency. These improvements occurred as a result of our addition of a new sales director, an improvement in our product mix, the introduction of new products, and the procurement of higher quality materials. The increase was also due to greater revenue from third parties for whom we manufactured and processed their products.

Cost of Goods Sold

Our cost of goods sold for the six months ended November 30, 2022 was \$6,074,463, an increase of \$785,806, or 15%, compared to cost of goods sold of \$5,288,657 for the six months ended November 30, 2021. The increase in cost of goods sold for the six months ended November 30, 2022 was due primarily to an increase in revenue and more aggressive competitive discounts. Cost of goods sold was 50% of sales during the six months ended November 30, 2022 resulting in a gross margin of 50%. Cost of goods sold was 48% for the six months ended November 30, 2021 resulting in a gross margin of 52%. Costs of goods sold as a percentage of revenue increased due to aggressive pricing in response to a very competitive market. Gross margin met our target of 50% for the first half of fiscal year 2023. Cost of goods sold during the first half of the 2023 fiscal year primarily consisted of \$5,333,84 of product cost, \$399,203 of state and local fees and taxes, and \$283,933 of supplies and materials.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, increased by \$759,634, or approximately 13%, to \$6,707,861 during the six months ended November 30, 2022, compared to \$5,948,227 for the six months ended November 30, 2021. The increase in SG&A expenses for the six months ended November 30, 2022 was primarily due to increases in costs associated with operating the Oasis LLCs.

SG&A expense during the six months ended November 30, 2022 was primarily attributable to an aggregate of \$5,488,789 in costs associated with operating the Oasis LLCs, an increase of \$647,953 compared to \$4,840,836 during the first half of fiscal 2022. The major components of the \$647,953 increase in SG&A associated with the operation of the Oasis LLCs during the six months ended November 30, 2022 compared to the six months ended November 30, 2021 were as follows: payroll and related costs of \$2,826,346 compared to \$2,142,613; lease, facilities and office costs of \$1,371,903 compared to \$1,157,255; professional fees of \$391,826 compared to \$146,513; depreciation and amortization of \$327,517 compared to \$205,285; and travel of \$176,970 compared to \$145,178. Payroll costs increased during the first half of fiscal 2023 primarily due to increases in salaries of our employees related to the national labor shortage and due to an increase in the number of employees in our manufacturing division as we planned for the rollout of our pre-roll division. Lease, facilities and office costs increased due to our efforts to prepare our facilities for the new pre-roll division by purchasing equipment and implementing compliance procedures applicable to this new division. Professional fees increased primarily due to legal fees related to the restructuring of debt and the implementation of a reverse stock split. Travel increased due to tribal visits in New Mexico and Northern Nevada. These increases were partially offset by a decrease in sales and marketing costs of \$397,448 due to a concerted effort to reduce professional outsourced marketing programs.

Finally, SG&A increased by \$111,681 during the six months ended November 30, 2022 as a result of an increase in the expenses associated with the ongoing implementation of other aspects of our business plan and our general corporate overhead to \$1,219,073 from \$1,107,392 during the six months ended November 30, 2021. The major component of this increase compared to the first half of fiscal 2022 was due to increased legal fees. The Company is actively disputing the amount of fees charged by our prior legal counsel.

Loss on Equity Investment

During the six months ended November 30, 2022, we had a loss on equity investment in the amount of \$154,111; there was no comparable transaction in the prior period. The Company, through its 50% owned subsidiary Kealii Okamalu, owns a one-third interest in the Quinn River Joint Venture. The Quinn River Joint Venture completed its first harvest during the three months ended November 30, 2022, and the Company purchased inventory in the amount of \$952,124 from the Quinn River Joint Venture.

Gain on Settlement of Note Receivable

During the six months ended November 30, 2022, we recorded a gain on the settlement of the IGH Settlement Note in the amount of \$348,165 compared to \$1,696,328 for the first half of fiscal 2022. This gain on the settlement arose after IGH notified us on February 27, 2021, that it did not plan to make further payments in accordance with the terms of the IGH Note on the theory that the Break-Up Fee excused such additional payments. We vehemently disagreed and litigation ensued. On June 14, 2021, the parties to the IGH lawsuit entered into a confidential settlement agreement to resolve the action and executed the \$3,000,000 IGH Settlement Note. Pursuant to the IGH Settlement Note, IGH paid us \$1,000,000 on or before July 21, 2021. The remaining \$2,000,000 and accrued interest was paid in 12 equal monthly installments, and the final installment was paid in July 2022.

Loss on Extinguishment of Debt

During the six months ended November 30, 2022, certain of our convertible debentures were amended to: (i) permit mandatory conversion of \$11,343,619 in principal plus \$189,061 in accrued interest into units at a reduced rate of \$0.285 per unit; (ii) decrease the conversion price of the remaining debentures to \$0.40 per unit; (iii) reduce the mandatory conversion VWAP provision from \$2.40 to \$0.80; (iv) change the maturity date so that half of the remaining balance matures on December 31, 2023 and the remaining on December 31, 2024. We recognized a loss on the amendment of the debt in the amount of \$6,659,359 in connection with these amendments during the first half of fiscal 2023. There was no comparable transaction in the prior year.

Gain on Settlement of Debt

During the six months ended November 30, 2022, our U.S. Convertible Debenture 4 in the amount \$599,101 in principal and accrued interest in the amount of \$3,283, went into default. We entered into a forbearance agreement with the lender, whereby we would pay the amount of \$600,000 in installments beginning with a \$150,000 payment on November 2, 2022 and \$50,000 payments each month thereafter through August of 2023. As a result of this agreement, we recognized a gain on the settlement of debt in the amount of \$2,384. There is no comparable transaction in the prior period.

Interest Expense, Net

Our interest expense was \$1,375,575 for the six months ended November 30, 2022, an increase of \$549,103, or 66%, compared to \$826,472 for the six months ended November 30, 2021. The increase in interest expense was primarily due to the original issue discount associated with the 2021 Debentures in the amount of \$370,162 which was amortized to interest expense during the six months ended November 30, 2022. There was no comparable charge during the first half of the prior fiscal year. In addition, the increase in net interest expense for the first half of fiscal 2023 was due to an increase in interest expense of \$195,051 in connection with the 2021 Debentures in the principal amount of \$2,500,000 (net of original issue discount of \$1,875,000), which we issued in the November 2021 Debenture Offering. The increase in net interest expense for the first half of fiscal 2023 was partially offset by a decrease in the amortization of discounts on debentures in the amount of \$16,110.

Provision for Income Taxes

We recorded a provision for income taxes in the amount of \$1,035,776 during the six months ended November 30, 2022 compared to \$469,057 during the six months ended November 30, 2021. Although we have net operating losses that we believe are available to us to offset this entire tax liability, which arises under Section 280E of the Code because we are a cannabis company, as a conservative measure, we have accrued this liability.

Net Loss

Our net loss for the six months ended November 30, 2022 was \$9,537,492 compared to a net income of \$78,627 for the six months ended November 30, 2021, a decrease of \$9,049,400, or 1,652%. The net loss amount was primarily due to a one-time entry of \$6,659,359 for the Loss on Extinguishment of Debt resulting from the debt restructuring and the conversion of \$11,523,680 of debt to equity.

Non-Controlling Interest

During the six months ended November 30, 2022 and 2021, income (loss) associated with the non-controlling interest in Kealii Okamalu was \$173,060 and \$3,500, respectively. This amount is composed of the third-party portion of the operating loss of the Quinn River Joint Venture and our loss on equity investment.

Net Loss Attributable to CLS Holdings USA, Inc.

Our net loss attributable to CLS Holdings USA, Inc. for the six months ended November 30, 2022 was \$9,364,432 compared to a net income of \$82,127 for the six months ended November 30, 2021, a decrease of \$9,446,559, or 11,502%.

Liquidity and Capital Resources

The following table summarizes our total current assets, liabilities and working capital at November 30, 2022 and May 31, 2022:

| | November 30, 2022 | May 31, 2022 |
|---------------------------|------------------------------|-------------------------|
| Current Assets | \$ 6,976,780 | \$ 6,883,557 |
| Current Liabilities | \$ 11,454,374 | \$ 28,112,190 |
| Working Capital (Deficit) | \$ (4,477,594) | \$ (21,228,633) |

At November 30, 2022, we had a working capital deficit of \$4,477,594, a decrease of \$16,751,039 from the working capital deficit of \$21,228,633 we had at May 31, 2022. Our working capital increased primarily due to the restructuring of debenture agreements whereby (i) the current principal and interest in the aggregate amount of \$11,532,679 was converted to common stock, and (ii) the principal in the aggregate amount of \$7,506,102 was converted to long term liabilities. Working capital also increased due to an increase in inventory in the amount of \$1,458,054. Our working capital increase was partially offset by an increase in our accrued potential tax liability in the amount of \$1,035,776 as a result of the calculation of our tax liability under 280E, which can change based on the deductibility of applicable expenses and is not necessarily tied to operating income.

We recently completed the first harvest of the Quinn River Joint Venture and have been selling the products derived from that initial harvest since October of 2022. Our partner in Kealii Okamalu has not yet contributed its capital contribution and we have advanced additional amounts to cover this cash need. We believe that once we sell the initial crop from the Quinn River Joint Venture, which is expected to occur by the end of the third quarter of fiscal 2023, our liquidity will improve significantly; however, we cannot yet estimate when, or if, our partner will make the required capital contributions. If our partner fails to make the required capital contributions we will take control and ownership of our partners interest in Kealii Okamalu (among other remedies) in lieu of the contributions that should have been made by the partner. Until these issues are resolved, we may utilize short-term financing through the 2022 Financing Agreement and our Short-Term Financing Agreement. Although we have been able to secure such financing so far, there can be no assurance that we will be able to continue to secure such financing if we continue to need it.

In September 2022, we successfully refinanced all but one of the U.S. Convertible Debentures and all of the Canaccord Debentures so that 60% of them were converted into equity and the balance of them mature in equal portions in December 2023 and December 2024.

Although our revenues are expected to grow as we expand our operations, we only achieved net income for the first time during our first quarter of fiscal 2022 and we have experienced net losses since such time. Nonetheless, as a result of the debt restructuring and the competition of the first harvest of the Quinn River Joint Venture, we believe we will have funds sufficient to sustain our operations at their current level, or 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 the cannabis business. To address these risks, we must, among other things, seek growth opportunities through investments and acquisitions in our industry, successfully execute our business strategy 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.

Cash flows used in operating activities were \$1,821,312 during the six months ended November 30, 2022, an increase of \$293,982, or approximately 19%, compared to \$1,527,330 during the six months ended November 30, 2021. In deriving cash flows used in operating activities from the net losses for the first half of fiscal 2023 and the first half of fiscal 2022, certain non-cash items were (deducted from) or added back to the net loss for each such period. These amounts were \$7,334,224 and \$(1,304,248) for the six months ended November 30, 2022 and 2021, respectively. For the first half of fiscal year 2023, the most significant item deducted from the net loss was \$348,165 related to the gain on settlement of the IGH Settlement Note; compared to \$1,696,328 during the first half of fiscal 2022. For the first half of fiscal year 2023, the most significant item added to the net loss was \$6,659,359 related to the loss on extinguishment of debt. There is no comparable transaction during the first half of fiscal 2022.

Finally, our cash used in operating activities was affected by changes in the components of working capital. The amounts of the components of working capital fluctuate for a variety of reasons, including management's expectation of required inventory levels; the amount of accrued interest, both receivable and payable; the amount of prepaid expenses; the amount of accrued compensation and other accrued liabilities; our accounts payable and accounts receivable balances; and the capitalization of right of use assets and liabilities associated with operating leases. The overall net change in the components of working capital resulted in an increase in cash from operating activities in the amount of \$133,925 during the six months ended November 30, 2022, compared to a decrease in cash from operating activities of \$301,709 during the first half of fiscal 2022. The more significant changes for the first half of fiscal 2023 were as follows: inventory increased during first half of fiscal 2023 by \$1,458,054, compared to an increase of \$1,013,127 during the first half of the prior fiscal year because of increased inventory levels necessary to support increased sales; tax liability increased by \$1,035,776 during the first half of fiscal 2023, compared to \$469,057 during the first half of the prior year as we accrued potential taxes in connection with Section 280E of the tax code; accounts receivable increased by \$387,057 during the first half of fiscal 2023 compared to an increase of \$115,060 during the first half of prior fiscal year due to an increase in revenue; and operating lease liability decreased by \$161,153 during the first quarter of fiscal 2023 compared to \$139,983 during the first quarter of prior fiscal year as certain leases were renegotiated resulting in lower monthly amortization.

Cash flows used by investing activities were \$33,268 for the six months ended November 30, 2022, a decrease of \$1,491,581, or 102%, compared to cash flow provided by investing activities of \$1,458,313 during the six months ended November 30, 2021. This decrease was primarily due to payments for our investment in the Quinn River Joint Venture of \$242,957, and payments to acquire property, plant and equipment of \$138,476, all of which occurred in the first half of fiscal 2023. The decrease was partially offset by our receipt of principal payments on the IGH Settlement Note in the amount of \$348,165 during the six months ended November 30, 2022, compared to our receipt of \$1,696,328 during the six months ended November 30, 2021.

Cash flows provided by financing activities were \$111,313 for the six months ended November 30, 2022, an increase of \$173,489, or 279%, compared to cash flow used in financing activities of \$62,176 during the six months ended November 30, 2021. This increase was primarily due to proceeds from loans payable in the amount of \$1,717,115. This increase was partially offset by principal payments we made on loans payable in the amount \$1,371,309, principal payments on convertible notes payable in the amount of \$200,000, and principal payments on our equipment financing lease obligations of \$34,493.

Third Party Debt

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

| Name of Note | Original Principal Amount | Outstanding or Repaid | Payment Details |
|---|--------------------------------------|----------------------------------|---|
| Oasis Note | \$ 4,000,000 | Repaid | Repaid |
| 2018 U.S. Convertible Debentures | \$ 365,991 | Outstanding | Repaid |
| Amended and Restated 2018 U.S. Convertible Debentures | \$ 2,252,229 | Outstanding | Half due on December 31, 2023 and half due on December 31, 2024 |
| 2018 Convertible Debentures | \$ 5,253,872 | Outstanding | Half due December 31, 2023 and half due December 31, 2024 |
| 2021 Debentures* | \$ 2,500,000 | Outstanding | Due July 10, 2024. |
| 2022 Financing Agreement | \$ 894,348 | Outstanding | Due September 2023 |

* The terms of the 2021 Debenture provide for additional payments in the aggregate amount of not less than \$375,000 per year for five years after the maturity of the 2021 Debentures.

2018 U.S. Convertible Debenture Offering

Between October 22, 2018 and November 2, 2018, we entered into six subscription agreements, pursuant to which we agreed to sell, \$5,857,000 in original principal amount of convertible debentures in minimum denominations of \$1,000 each for an aggregate purchase price of \$5,857,000.

Under the original terms, the debentures bear interest, payable quarterly, at a rate of 8% per annum, with capitalization of accrued interest on a quarterly basis for the first 18 months, by increasing the then-outstanding principal amount of the debentures. The debentures originally matured on a date that was three years following their issuance. The debentures were convertible into units at a conversion price of \$3.20 per unit. Each unit consists of (i) one share of our common stock, par value \$0.001 and (ii) one-half of one warrant, with each warrant exercisable for three years to purchase a share of common stock at an initial price of \$1.10. The warrants also provided that we could 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. The debentures include a provision for the capitalization of accrued interest on a quarterly basis for the first 18 months. After capitalizing accrued interest in the aggregate amount of \$738,663, the aggregate principal amount of the debentures increased to \$6,595,663.

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. 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.

On July 26, 2019, we entered into amendments to the debentures with four of the purchasers, pursuant to which we agreed to reduce 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. In such case, the conversion price of the original debentures will be reduced to such issuance price. The amendments also provided 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. If a dilutive issuance occurs, the form of warrant attached to the subscription agreement would be amended to change the Initial Exercise Price, as defined therein, to be the revised warrant exercise price.

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On March 31, 2021, we amended the Canaccord Debentures. This Debenture Amendment (as hereafter defined) was a dilutive issuance. As a result, the conversion price of the convertible debentures was automatically reduced from \$3.20 per unit to \$1.20 per unit and the form of warrant attached to the subscription agreement will be amended to reduce the exercise price from \$4.40 per share of common stock to 137.5% of the debenture conversion price (presently \$1.65 per share of common stock).

On April 15, 2021 and April 19, 2021, we amended three of the purchasers' debentures and subscription agreements in order to (i) reduce the conversion price of the debentures from \$3.20 per unit to \$1.20 per unit, and (ii) extend the maturity date of the debentures by one year to four (4) years from the execution date of the debentures. The subscription agreements, as amended, also provide that we will file a registration statement to register for resale all of the shares of common stock issuable to these three purchasers upon conversion of the debentures and the exercise of the warrants issuable upon conversion of such debentures. Each warrant issuable pursuant to the debentures is exercisable for one share of common stock at a price equal to 137.5% of the conversion price (presently \$1.65 per share) for a period of three years from the earlier of the date of issuance of the warrant or the effectiveness of a registration statement registering the warrant shares.

On October 25, 2021, we repaid three of the debentures at maturity, which comprised \$365,991 of principal and \$2,065 of interest.

Effective September 15, 2022, we entered into agreements with the holders of two of the debentures to make the following changes to these debentures and the related subscription agreements: (i) to permit the mandatory conversion, in our discretion, of an aggregate of \$3,378,342 in principal amount plus \$56,307 in accrued interest into units at the reduced conversion price of \$0.285 per unit; (ii) to decrease the conversion price of the remaining amount due under these debentures (following the mandatory conversion) to \$0.40 per unit; (iii) to reduce the mandatory conversion VWAP provision in the debentures from \$2.40 to \$0.80; (iv) to provide for a reduced conversion price to holders of these debentures who elect to convert more than the mandatory conversion amount on or prior to September 15, 2022; (v) to change the maturity date so that half of the remaining amounts due mature on December 31, 2023 and the remaining amounts due mature on December 31, 2024; (vi) to provide for the payment of interest accruing between July 1, 2022 and December 31, 2024 so that one-third of the total scheduled interest is paid on December 31, 2023 and the balance of the accrued interest is paid on December 31, 2024; and (vii) subject to the receipt of regulatory approvals, to grant a security interest in certain of our assets (such as licenses, inventory (including work in process), equipment (excluding equipment subject to purchase money financing) and contract rights (excluding investments in entities other than wholly owned subsidiaries)) to the holders of these debentures and to other holders of our debt, now or in the future, as we may elect. Following execution of the amendments to these two debentures and the related subscription documents, the Company elected to effect the mandatory conversion provided for in the amended documents.

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 "Canaccord Debentures"). The agents sold the convertible debentures on a commercially reasonable efforts private placement basis. Each debenture was convertible into units of the Company at the option of the holder at a conversion price of \$3.20 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 was initially exercisable for one share of common stock at a price of \$4.40 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 46,094 units for advisory services; and (ii) a corporate finance fee equal to 93,844 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 110,625 advisory warrants; and (ii) 225,225 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 8,080 shares of common stock. The debentures include a provision for the capitalization of accrued interest on a quarterly basis for the first 18 months. Accrued interest in the amount of \$1,514,006 was capitalized, and the principal amount of the debentures is \$13,500,150.

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

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Beginning on the date that is four (4) months plus one (1) day following the closing date, we could 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, or VWAP, of our common stock be greater than \$1.20 per share for the preceding 10 consecutive trading days.

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

On March 31, 2021, the holders of the Canaccord Debentures approved the amendment of the indenture related to the Canaccord Debentures (the "Debenture Amendment") to: (i) extend the maturity date of the Canaccord Debentures from December 12, 2021 to December 12, 2022; (ii) reduce the conversion price from \$3.20 per unit (as such term is defined in the indenture) to \$1.20 per unit; (iii) reduce the mandatory conversion VWAP threshold from \$1.20 to \$0.60 per share; and (iv) amend the definitions of "Warrant" and "Warrant Indenture" (as such terms are defined in the indenture), to reduce the exercise price of each warrant to \$1.60 per share of our common stock. Simultaneously, we amended the warrant indenture to make conforming amendments and extend the expiration date of the warrants to March 31, 2024.

Effective September 15, 2022, we entered into agreements with the holders of the Canaccord Debentures to restructure the debentures as follows: (i) \$7,931,490 in principal amount of the Canaccord Debentures plus \$132,192 in accrued interest on the Canaccord Debentures were converted into units at the reduced conversion price of US\$0.285 per unit; (ii) to decrease the conversion price of the remaining Canaccord Debentures (following the mandatory conversion) to \$0.40 per unit; (iii) to reduce the mandatory conversion VWAP provision in the Canaccord Debentures from \$2.40 to \$0.80; (iv) to provide for a reduced conversion price to holders of Canaccord Debentures who elect to convert more than the mandatory conversion amount of Canaccord Debentures on or prior to the date of the meeting of debenture holders; (v) to change the maturity date of the Canaccord Debentures so that half of the remaining Canaccord Debentures mature on December 31, 2023 and the remaining Canaccord Debentures mature on December 31, 2024; (vi) to provide for the payment of interest accruing between July 1, 2022 and December 31, 2024 so that one-third of the total scheduled interest is paid on December 31, 2023 and the balance of the accrued interest is paid on December 31, 2024; and (vii) to grant a security interest in certain of our assets (such as licenses, inventory (including work in process), equipment (excluding equipment subject to purchase money financing) and contract rights (excluding investments in entities other than wholly owned subsidiaries)) to the holders of the Canaccord Debentures and to other holders of debt of ours now or in the future, as we may elect, provided that we are able to secure all regulatory approvals required to make such a grant. Following the meeting, we elected to effect the mandatory conversion provided for in the amendments to the Canaccord Debentures and received an additional voluntary conversion of \$33,787 in principal and \$563 in accrued interest of the Canaccord Debentures.

If, at the time of exercise of any warrant in accordance with the warrant indenture, there is no effective registration statement under the 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 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 $[(A-B) \times X]$ by (A), where: A = the last volume weighted average price, or 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.

November 2021 Debenture Offering

During November 2021, we commenced an offering of a maximum of \$5,500,000 of 2021 Debentures and warrants to purchase shares of our common stock at an exercise price of \$1.65 per share in an aggregate amount equal to one-half of the aggregate purchase price for the 2021 Debentures. The proceeds of the November 2021 Debenture Offering were used to fund our investment in the Quinn River Joint Venture.

On March 9, 2022, we conducted the final closing of the November 2021 Debenture Offering. Between December 1, 2021 and January 4, 2022, we completed multiple closings of the November 2021 Debenture Offering in which we sold an aggregate of \$2,500,000 of 2021 Debentures and issued an aggregate of 757,576 Debenture Warrants to the investors. The 2021 Debentures bear interest at the rate of 15% per annum calculated on the basis of a 360 day year and mature on July 10, 2024. Commencing 36 months after issuance of the 2021 Debentures and for a period of 5 years thereafter, all note holders shall receive, on an annual basis, cash payments equal to the greater of (i) 15% of the principal amount of the notes they purchased, or (ii) such purchaser's pro rata portion of 5% of the distributions we receive for the prior fiscal year pursuant to the terms of the Quinn River Joint Venture Agreement. The Debenture Warrants have a term of 3 years and are exercisable, in whole or in part, at any time, or from time to time, after the date of issuance for \$1.65 per share of our common stock.

Accounts Receivable Financing Agreement

We maintain an accounts receivable financing agreement (the "Short Term Financing Agreement") with LeafLink Financial whereby we can sell certain of our accounts receivable for a discount of 3%. In April 2022, the discount rate decreased to 2.5%. Loans under the facility cannot exceed an aggregate of \$1,500,000 and are payable within 30 days.

2022 Financing Agreement

Effective September 30, 2022, we entered into a Business Loan and Security Agreement with CBR Capital LLC to borrow \$900,000. The loan is repayable in 48 weekly installments in the amount of \$13,312.50 for weeks 1-8 and \$29,287.50 for weeks 9-48. CBR Capital LLC has stated that it is aware of the Canaccord Debentures and the U.S. Convertible Debentures and will agree to subordinate the CBR security interest to these debenture holders. Certain terms of the loan remain subject to regulatory approval. During the three months ended November 30, 2022, the Company received cash proceeds in the amount of \$873,000 from the loan agreement and made payments in the amount of \$93,188.

2022 Agreement for the Purchase and Sale of Future Receipts

Effective October 21, 2022, we entered into an Agreement for the Purchase and Sale of Future Receipts with TVT Business Funding LLC to borrow \$200,000. The loan is prepayable in future receipts until the amount of \$284,000 has been repaid. During the three months ended November 30, 2022, the Company received cash proceeds in the amount of \$194,000 from the loan agreement and made payments in the amount of \$29,583.

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 7,243,014 special warrants at a price of CD\$1.80 (USD\$1.36) 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\$2.60 for three years after our common stock was listed on a recognized Canadian stock exchange, subject to adjustment in certain events. The warrants expired on January 7, 2022. 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 362,163 Special Warrants with a fair value of USD\$1,413,300, and 579,461 Broker Warrants. Each Broker Warrant entitles the holder thereof to acquire one unit at a price of CD\$1.80 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 760,542 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, 1,875,000 units (\$1.60 per unit), representing (i) 1,875,000 shares of our common stock, and (ii) three-year warrants to purchase an aggregate of 1,875,000 shares of our common stock (the “Navy Warrant Shares”) at an exercise price of \$2.40 per share of common stock (the “Navy Capital Offering”). We valued the warrants using the Black-Scholes valuation model, and allocated gross proceeds in the amount of \$1,913,992 to the common stock and \$1,086,008 to the warrants. The closing occurred on August 6, 2018. In the subscription agreement, we also agreed to file, on or before November 1, 2018, a registration statement with the SEC registering the shares of common stock and Navy Warrant Shares issued to Navy Capital. If we failed to file the registration statement on or before that date, we were required to issue to Navy Capital an additional number of units equal to ten percent (10%) of the units originally subscribed for by Navy Capital (which would include additional warrants at the original exercise price). On August 29, 2019, we filed a registration statement with the SEC which included the shares of common stock and Navy Warrant Shares issued to Navy Capital. The warrant was exercisable from time to time, in whole or in part for three years. The warrant had anti-dilution provisions that provided for an adjustment to the exercise price in the event of a future issuance or sale of common stock at a lower price, subject to certain exceptions as set forth in the warrant. The warrant also provided 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. This warrant expired on July 31, 2021.

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, 1,718,750 units (\$1.60 per unit), representing (i) 1,718,750 shares of our common stock, and (ii) three-year warrants to purchase an aggregate of 1,718,750 shares of our common stock at an exercise price of \$2.40 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. These warrants expired on August 7, 2021. 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.

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 was 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 would generally become effective upon an 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.

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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. In February 2021, we finalized the tax audit, used approximately \$43,000 of the escrowed amount to reimburse ourselves for the portion of the tax liability properly payable by the sellers, and returned approximately \$107,000 of the escrowed amount to the sellers.

We received final regulatory approval to own the membership interests in the Oasis LLCs on December 12, 2018. We received final regulatory approval to own our interest in the Oasis LLCs through Alternative Solutions under the revised structure of the transaction on April 26, 2022.

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 2,500 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 November 30, 2022, we included 5,000 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 6,250 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 November 30, 2022, we had 12,500 shares of common stock, valued at \$42,500 included in stock payable on the accompanying balance sheet. The shares were valued based on the closing market price on the grant date.

Going Concern

Our financial statements were prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplate the realization of assets and liquidation of liabilities in the normal course of business. With the exception of the first quarter of fiscal 2022, we have incurred losses from operations since inception, and have an accumulated deficit of \$104,444,249 as of November 30, 2022, compared to \$95,079,817 as of May 31, 2022. We had a working capital deficit of \$4,477,594 as of November 30, 2022, compared to a working capital deficit of \$21,228,633 as of May 31, 2022. The report of our independent auditors for the year ended May 31, 2022 contained a going concern qualification.

Our ability to continue as a going concern must be considered in light of the problems, expenses, and complications frequently encountered by early-stage companies.

Our ability to continue as a going concern is dependent on our ability to generate sufficient cash from operations to meet our cash needs and finance our ongoing operations. There can be no assurance that cash generated by our future operations will be adequate to meet our needs.

Off-Balance Sheet Arrangements

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

Critical Accounting Estimates

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

- Estimates and assumptions regarding the deductibility of expenses for purposes of Section 280E of the Internal Revenue Code: Management evaluates the expenses of its manufacturing and retail operations and makes certain judgments regarding the deductibility of various expenses under Section 280E of the Internal Revenue Code based on its interpretation of this regulation and its subjective assumptions about the categorization of these expenses.
- Estimates and assumptions used in the valuation of derivative liabilities: Management utilizes a lattice model to estimate the fair value of derivative liabilities. The model includes subjective assumptions that can materially affect the fair value estimates.
- Estimates and assumptions used in the valuation of intangible assets. In order to value our intangible assets, management prepares multi-year projections of revenue, costs of goods sold, gross margin, operating expenses, taxes and after tax margins relating to the operations associated with the intangible assets being valued. These projections are based on the estimates of management at the time they are prepared and include subjective assumptions regarding industry growth and other matters.

Recently Issued Accounting Standards

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

In 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 were applied on a prospective basis. During the year ended May 31, 2020, the Company recorded an impairment of goodwill in the amount of \$25,185,003 pursuant to ASU No. 2017-04.

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.

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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.

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 have a material impact on our consolidated financial position, results of operations or cash flows.

Item 3. Quantitative and Qualitative Disclosure about Market Risk.

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

Item 4. Controls and Procedures.

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

Evaluation of Disclosure Controls and Procedures

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

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

We plan to rectify these weaknesses by hiring additional accounting personnel once we have additional resources to do so.

Changes in Internal Control over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

The Effects of Climate Change Could Adversely Affect the Quantity and Quality of Our Crops and the Cost and Availability of Energy to Our Dispensary Operations.

We are feeling the effects of climate change in terms of the temperatures in the areas where we maintain our joint venture cultivation facilities. The high temperatures are higher than in previous years and the impact of the additional heat is adversely affecting both the yield of our harvest and the quality of our crop. Rising temperatures could also cause us to reduce our growing season in the future. In addition, the effect of climate change is causing an increase in the cost of electricity to operate our dispensary operation and if temperatures remain high, could result in rationing of electricity, which could necessitate a reduction in operating hours at our dispensary.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

Item 6. Exhibits.

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| 31.1 | Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification by the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL) |

SIGNATURES

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

CLS HOLDINGS USA, INC.

Date: January 12, 2023

By: /s/ Andrew Glashow
Andrew Glashow
President and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)

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

I, Andrew Glashow, certify that:

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

January 12, 2023

/s/ Andrew Glashow

Andrew Glashow
President and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)

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

I, Andrew Glashow, certify pursuant to 18 U. S. C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the Quarterly Report on Form 10-Q of CLS Holdings USA, Inc. (the "Company") for the quarter ended November 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: January 12, 2023

/s/ Andrew Glashow

Andrew Glashow

President and Chief Executive Officer

(Principal Executive, 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.