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 **August 31, 2024**

or

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

Commission File Number: **000-55546**

CLS HOLDINGS USA, INC.

(Exact name of registrant as specified in its charter)

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

516 S. 4th Street, Las Vegas Nevada, 89101
(Address of principal executive offices) (Zip Code)

(888) 359-4666
(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

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

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

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

State the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 165,859,517 shares of $0.0001 par value common stock outstanding as of October 8, 2024.

CLS HOLDINGS USA, INC.

FORM 10-Q
Quarterly Period Ended August 31, 2024

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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. 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

	August 31, 2024 (unaudited)	May 31, 2024
ASSETS		
Current assets		
Cash and cash equivalents	$ 521,349	$ 600,007
Cash - restricted	2,600,000	-
Accounts Receivable	1,214,129	682,894
Inventory	2,037,794	1,968,573
Prepaid expenses and other current assets	39,123	49,309
Total current assets	6,412,395	3,300,783
Property, plant and equipment, net of accumulated depreciation of $3,452,211 and $3,318,550	2,289,892	2,423,553
Right of use assets, operating leases	1,492,252	1,475,351
Intangible assets, net of accumulated amortization of $348,841 and $348,015	9,152	9,978
Goodwill	557,896	557,896
Other assets	157,500	157,500
Total assets	$ 10,919,087	$ 7,925,061
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 4,277,801	$ 3,356,059
Accrued interest	3,600	3,600
Lease liability - operating leases, current	470,850	443,467
Lease liability - financing leases, current	104,251	96,224
Taxes Payable	9,424,759	8,899,863
Notes payable, current	125,107	139,345
Notes payable - related party, current	1,415,392	988,472
Convertible notes payable, current	375,025	302,005
Total current liabilities	16,196,785	14,229,035
Noncurrent liabilities		
Lease liability - operating leases, non-current	1,308,471	1,318,644
Lease liability - financing leases, non-current	68,612	100,252
Notes payable, non-current, net of discount of $183,263 and $193,756	396,264	407,951
Notes payable - related party, non-current	839,358	1,078,551
Convertible notes payable, non-current	3,610,456	3,699,426
Total Liabilities	22,419,946	20,833,859
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; 345,000,000 shares authorized; 181,348,418 and 124,500,873 shares issued and outstanding at August 31, 2024 and May 31, 2024, respectively	18,135	12,450
Additional paid-in capital	103,742,716	101,519,599
Common stock subscribed	65,702	65,702
Accumulated deficit	(114,187,913)	(113,367,050)
Stockholder's deficit attributable to CLS Holdings, Inc.	(10,361,360)	(11,769,299)
Non-controlling interest	(1,139,499)	(1,139,499)
Total stockholder's deficit	(11,500,859)	(12,908,798)
Total liabilities and stockholders' deficit	$ 10,919,087	$ 7,925,061

See accompanying notes to these financial statements.

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

	For the Three Months Ended August 31, 2024	For the Three Months Ended August 31, 2023
Revenue	$ 4,805,165	$ 5,114,527
Cost of goods sold	2,756,896	2,840,601
Gross margin	2,048,269	2,273,926
Selling, general and administrative expenses	2,184,833	2,729,900
Total operating expenses	2,184,833	2,729,900
Operating income (loss)	(136,564)	(455,974)
Other (income) expense:		
Interest expense, net	159,403	457,472
Employee retention tax credit income	-	(924,862)
(Gain) on settlement of accounts payable	-	(4,375)
Total other (income) expense	159,403	(471,765)
Income (Loss) before income taxes	(295,967)	15,791
Provision for income tax	(524,896)	(477,524)
Net loss	(820,863)	(461,733)
Non-controlling interest	-	(2,108)
Net loss attributable to CLS Holdings, Inc.	(820,863)	$ (463,841)
Net loss per share - basic	$ (0.01)	$ (0.01)
Net loss per share - diluted	$ (0.01)	$ (0.01)
Weighted average shares outstanding - basic	125,118,781	72,543,141
Weighted average shares outstanding - diluted	125,118,781	72,543,141

See accompanying notes to these financial statements.

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

	Common Stock		Additional	Stock	Stock	Accumulated	Non-controlling	
	Amount	Value	Paid In Capital	Payable	Receivable	Deficit	Interest	Total
Balance, May 31, 2023	**72,543,141**	**$ 7,255**	**$ 96,147,784**	**$ 65,702**	**$ -**	**$ (108,879,446)**	**$ (1,141,867)**	**$ (13,800,572)**
Net loss for the three months ended August 31, 2023	-	-	-	-		(463,841)	2,108	(461,733)
Balance, August 31, 2023	72,543,141	$ 7,255	$ 96,147,784	$ 65,702	$ -	$ (109,343,287)	$ (1,139,759)	$ (14,262,305)
Balance, May 31, 2024	124,500,873	$ 12,450	$ 101,519,599	$ 65,702	$ -	$ (113,367,050)	$ (1,139,499)	$ (12,908,798)
Conversion of notes payable	56,847,545	5,685	2,194,315	-	-	-	-	2,200,000
Amortization of employee stock options	-	-	28,802	-	-	-	-	28,802
Net loss for the three months ended August 31, 2024	-	-	-	-		(820,863)	-	(820,863)
Balance, August 31, 2024	181,348,418	$ 18,135	$ 103,742,716	$ 65,702	$ -	$ (114,187,913)	$ (1,139,499)	$ (11,500,859)

See accompanying notes to these financial statements.

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

	For the Three Months Ended August 31, 2024	For the Three Months Ended August 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (820,863)	$ (461,733)
Adjustments to reconcile net loss to net cash used in operating activities:		
Share-based compensation	28,802	-
Amortization of debt discounts and fees	10,297	171,656
Gain on settlement of accounts payable	-	(4,375)
Depreciation and amortization expense	134,487	166,474
Bad debt expense	-	300
Changes in assets and liabilities:		
Accounts receivable	(531,235)	(327,128)
Prepaid expenses and other current assets	10,186	23,805
Inventory	(69,221)	(38,552)
Right of use asset	103,500	89,736
Accounts payable and accrued expenses	921,742	650,236
Accrued interest	42,850	122,226
Deferred tax liability	524,896	477,524
Operating lease liability	(103,191)	(86,919)
Net cash used in operating activities	252,250	783,250
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments to purchase property, plant and equipment	-	(20,683)
Payment for construction security deposit	-	(58,175)
Net cash provided by (used in) investing activities	-	(78,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash received from the issuance of convertible notes payable	2,600,000	-
Principal payments on convertible notes payable	(48,093)	(100,000)
Principal payments on notes payable	(46,929)	(145,833)
Principal payments on notes payable -related party	(212,273)	-
Repayments of loan payable	-	(401,781)
Principal payments on finance leases	(23,613)	(20,519)
Net cash used in financing activities	2,269,092	(668,133)
Net decrease in cash and cash equivalents	2,521,342	36,259
Cash and cash equivalents at beginning of period	600,007	998,421
Cash and cash equivalents at end of period	$ 3,121,349	$ 1,034,680
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Interest paid	$ 115,333	$ 163,783
Income taxes paid	$ -	$ -
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Shares issued for conversion of notes payable	$ 2,200,000	$ -
Capitalized interest	$ 42,850	$ -
Initial ROU asset and lease liability - operating	$ 120,401	$ -

See accompanying notes to these financial statements.

CLS HOLDINGS USA, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2024
(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.; 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"); and wholly owned inactive subsidiaries CLS Labs Colorado, Inc. ("CLS Colorado") and CLS Massachusetts, Inc. ("CLS Massachusetts"). 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 CLS CBD in which the company owns a 95% ownership interest and 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.

We currently operate a retail marijuana dispensary within walking distance to the Las Vegas Strip and a small-scale cultivation facility, as well as a product manufacturing facility and a wholesale distribution operation in North Las Vegas. The vertically integrated business model drives strong margins to the bottom line on a portion of sales at the dispensary.

Our retail dispensary is a single location operation in Nevada and occupies over 5,000 square feet. This location, which is easily accessible by tourists, is currently open 19.5 hours per day for walk-in service. Curbside and in store express pick up is available between the hours of 8:00 AM and 12:00 AM. Oasis dispensary also delivers cannabis to residents between the hours of 8:00 AM and 10:00 PM. The central location provides logistical convenience for delivery to all parts of the Las Vegas valley.

Our wholesale operations, which occupies approximately 10,000 square feet of a 22,000 square foot warehouse, began sales to third parties in August 2017 and completed construction and received a certificate of occupancy for its state-of-the-art extraction facility in December of 2019. We have made sales to over 85 external customers as of August 31, 2024. Our existing product line includes vaporizers, tinctures, ethanol produced THC distillate, and live and cured hydrocarbon concentrates. At present, the City Trees cultivation facility only grows breeding stock to preserve valuable genetics and does not offer its crops for sale or processing. As a result, all raw materials for manufacturing are sourced from third parties.

Use of Estimates

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

Reclassification

Certain reclassifications, not affecting previously reported net income or cash flows, have been made to the previously issued financial statements to conform to the current period presentation.

Cash, Cash Equivalents, and Restricted Cash

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 $521,349 and $600,007 as of August 31, 2024 and May 31, 2024, respectively.

At August 31, 2024, the Company had $2,600,000 of restricted cash held in escrow for the redemption of certain notes payable. See note 14.

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 bad debt expense of $0 and $300 during the three months ended August 31, 2024 and 2023.

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 tinctures and extracts developed under our production license.

Property, Plant and Equipment

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

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

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

Long-Lived Assets

The Company reviews its property and equipment and any identifiable intangibles including goodwill for impairment on an annual basis utilizing the guidance set forth in the Statement of Financial Accounting Standards Board ASC 350 "Intangibles – Goodwill and Other" and ASC 360 "Property, Plant, and Equipment." At August 31, 2024, the net carrying value of goodwill on the Company's balance sheet remained at $557,896.

Employee Retention Tax Credit

Under the provisions of the extension of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), the Company was eligible for a refundable employee retention tax credit (the "ERTC"), subject to certain criteria. As ERTCs are not within the scope of ASC 740, Income Taxes, the Company has chosen to account for the ERTCs by analogizing to the International Standard IAS 20, Accounting/or Government Grants and Disclosure of Government Assistance ("IAS 20"). In accordance with IAS 20, an entity recognizes government grants only when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. During the three months ended August 31, 2024 and 2023, the Company received an aggregate of $0 and $924,862, respectively, which was accounted for as other income on the Company's condensed consolidated statement of operations.

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.

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 August 31, 2024 and 2023, the Company reported a non-controlling interest in the amount of $0 and ($2,108), respectively, representing 50% of the income (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.

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 $78,001 and $123,611 for the three months ended August 31, 2024 and 2023, respectively.

Research and Development

Research and development expenses are charged to operations as incurred. The Company incurred research and development costs of $140 and $1,465 for the three months ended August 31, 2024 and 2023, 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 months ended August 31, 2024 and 2023:

	For the Three Months Ended August 31, 2024	For the Three Months Ended August 31, 2023
Cannabis Dispensary	3,067,075	3,308,542
Cannabis Production	1,738,090	1,805,985
	$ 4,805,165	$ 5,114,527

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 August 31, 2024 and 2023, the Company had the following potentially dilutive instruments outstanding: at August 31, 2024, a total of 85,679,844 shares (20,726,901 issuable upon the exercise of warrants, 56,935,443 issuable upon the conversion of convertible notes payable and accrued interest, 8,000,000 shares issuable upon the conversion of stock options, and 17,500 in stock to be issued); and at August 31, 2023, a total of 41,715,637 shares (21,181,449 issuable upon the exercise of warrants, 20,516,688 issuable upon the conversion of convertible notes payable and accrued interest, and 17,500 in stock to be issued).

The Company uses the treasury stock method to calculate the impact of outstanding stock options and warrants. Stock options and warrants for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on earnings per common share and, accordingly, are excluded from the 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 months ended August 31, 2024 and 2023. For the three months ended August 31, 2024 and 2023, 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 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 a have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Note 2: Going Concern

As shown in the accompanying financial statements, the Company has incurred net losses from operations resulting in an accumulated deficit of $114,187,913 as of August 31, 2024. 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. The Company has reported positive cash generated from operating activities for the last four quarters, including the three months ended August 31, 2024.

Note 3: Accounts Receivable

Accounts receivable was $1,214,129 and $682,894 at August 31, 2024 and May 31, 2024, respectively. The Company had bad debt expense of $0 and $300 during the three months ended August 31, 2024 and 2023. No allowance for doubtful accounts was necessary during the three months ended August 31, 2024 and 2023.

Note 4: 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:

	August 31, 2024	May 31, 2024
Raw materials	$ 341,599	$ 386,803
Finished goods	1,696,195	1,581,770
Total	$ 2,037,794	$ 1,968,573

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 5: Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following at August 31, 2024 and May 31, 2024:

	August 31, 2024	May 31, 2024
Prepaid license fees	10,000	14,659
Other prepaid expenses	29,123	34,650
Total	$ 39,123	$ 49,309

Prepaid expenses primarily of (i) annual license fees charged by the State of Nevada; (ii) insurance costs; (iii) supplies; (iv) rent; and (v) board fees.

Note 6: Property, Plant and Equipment

Property, plant and equipment consisted of the following at August 31, 2024 and May 31, 2024:

	August 31, 2024	May 31, 2024
Office equipment	$ 163,126	$ 163,126
Furniture and fixtures	148,358	148,358
Machinery & Equipment	2,519,455	2,519,455
Leasehold improvements	2,911,164	2,911,164
Less: accumulated depreciation	(3,452,211)	(3,318,550)
Property, plant, and equipment, net	$ 2,289,892	$ 2,423,553

The Company made payments in the amounts of $0 and $20,683 for property and equipment during the three months ended August 31, 2024 and 2023, respectively.

Depreciation expense totaled $133,661 and $158,723 for the three months ended August 31, 2024 and 2023, respectively.

Note 7: 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 August 31, 2024 and 2023 was entirely comprised of operating leases and amounted to $103,191 and $123,408, respectively.

The Company's right of use ("ROU") asset amortization for the three months ended August 31, 2024 and 2023 was $103,500 and $89,736, respectively.

The Company has recorded total right of use assets of $4,384,520 and liabilities in the amount of $4,341,120 through August 31, 2024.

Right of use assets – operating leases are summarized below:

	August 31, 2024
Amount at inception of leases	$ 4,384,520
Amount amortized	(2,686,380)
Prior Period Impairment of Quinn River Lease	(205,888)
Balance – August 31, 2024	$ 1,492,252

Operating lease liabilities are summarized below:

Amount at inception of leases	$ 4,461,521
Amount amortized	(2,682,200)
Balance – August 31, 2024	$ 1,779,321
Warehouse and offices	$ 1,569,437
Land	205,888
Office equipment	3,996
Balance – August 31, 2024	$ 1,779,321
Lease liability	$ 1,779,321
Less: current portion	(470,850)
Lease liability, non-current	$ 1,308,471

Maturity analysis under these lease agreements is as follows:

Twelve months ended August 31, 2025	$ 651,838
Twelve months ended August 31, 2026	469,903
Twelve months ended August 31, 2027	319,791
Twelve months ended August 31, 2028	332,016
Twelve months ended August 31, 2029	275,681
Thereafter	226,703
Total	$ 2,275,932
Less: Present value discount	(496,611)
Lease liability	$ 1,779,321

Note 8: Intangible Assets

Intangible assets consisted of the following at August 31, 2024 and May 31, 2024:

	August 31, 2024			
	Gross	Accumulated Amortization	Impairment	Net
License & Customer Relations	$ 110,000	$ (110.000)	-	-
Tradenames - Trademarks	222,000	(222,000)	-	-
Domain Names	25,993	(16,841)	-	9,152
Total	$ 357,993	$ (348,841)	-	$ 9,152

	May 31, 2024			
	Gross	Accumulated Amortization	Impairment	Net
License & Customer Relations	110,000	(110,000)	-	-
Tradenames - Trademarks	222,000	(222,000)	-	-
Domain Names	25,993	(16,015)	-	9,978
Total	$ 357,993	$ (348,015)	$ -	$ 9,978

Total amortization expense charged to operations for the three months ended August 31, 2024 and 2023 was $826 and $7,751, respectively.

Remaining amortization expense for intangible assets as of August 31, 2024 is as follows	
2025	$ 2,478
2026	3,304
2027	3,304
2028	66
	$ 9,152

Note 9: Goodwill

Goodwill in the amount of $557,896 is carried on the Company's balance sheet at August 31, 2024 and May 31, 2024 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, 2024 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 May 31, 2024. As a result, no impairment was recorded. At August 31, 2024 and May 31, 2024, the net amount of goodwill on the Company's balance sheet was $557,896.

Note 10: Other Assets

Other assets included the following as of August 31, 2024 and May 31, 2024:

	August 31, 2024	May 31, 2024
Security deposits	157,500	157,500
	$ 157,500	$ 157,500

Note 11: Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consisted of the following at August 31, 2024 and May 31, 2024:

	August 31, 2024	May 31, 2024
Trade accounts payable	$ 3,553,286	$ 2,508,769
Accrued payroll and payroll taxes	341,675	313,296
Accrued liabilities	382,840	533,994
Total	$ 4,277,801	$ 3,356,059

Note 12: Notes Payable

	August 31, 2024	May 31, 2024
Debenture 2 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. On May 31, 2023, the Debenture 2 was amended as follows: (1) the first payment of principal and interest on June 30, 2023, followed by quarterly payment of principal and interest on September 30, 2023, beginning October 31, 2023, the Company is required to pay the note holder principal and Interest monthly through the maturity date. On December 31, 2023, the Debenture 2 was amended as follows: The original issue discount in the amount of $187,000 was reduced to $37,500. A gain on extinguishment of debt in the amount of $111,807 was recognized in connection with this transaction, and a discount in the amount of $6,501 was recorded. During the three months ended August 31, 2024, the Company amortized discounts on the Debenture 2 in the aggregate amount of $197. During the three months ended August 31, 2024, the Company made principal and interest payments in the amount of $17,917 and $130, respectively, on Debenture 2. As of August 31, 2024, Debenture 2 has been paid in full.	-	17,917
Debenture 6 Debenture in the principal amount of $500,000 (the "Debenture 6") dated January 4, 2022, which bears interest, payable quarterly commencing nine 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. The Company recorded an original issue discount in the amount of $375,000 on Debenture 6. On May 31, 2023, the Debenture 6 was amended as follows: (1) the maturity date was extended to October 31, 2024; (2) the first payment of principal and interest on June 30, 2023, followed by quarterly payment of principal and interest on September 30, 2023, beginning October 31, 2023, the Company is required to pay the note holder principal and interest monthly through the maturity date. On December 31, 2023, the Debenture 6 was amended as follows: The original issue discount in the amount of $375,000 was reduced to $75,000. A gain on extinguishment of debt in the amount of $402,370 was recognized in connection with this transaction, and a discount in the amount of $209,783 was recorded. During the three months ended August 31, 2024, the Company amortized discounts in the amount of $10,297 on Debenture 6 During the three months ended August 31, 2024, the Company capitalized interest in the amount of $10,707 on Debenture 6.	511,340	500,632
Promissory Note 6 ("PN 6") PN6 in the principal amount of $250,000 (the "PN6") dated February 22, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 24 months in the amount $11,799 beginning March 31, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments in the amount of $29,012 and $6,387, respectively, on PN6.	193,490	222,502
Notes Payable	$ 704,830	$ 741,052
Less: Discount	(183,459)	(193,756)
Notes Payable, Net of Discount	$ 521,371	$ 547,296

		August 31, 2024		May 31, 2024
Total Notes Payable, Current Portion	$	125,107	$	139,345
Total Notes Payable, Long-term Portion, net of discount	$	396,264	$	407,951

Note 13: Convertible Notes Payable

		August 31, 2024	May 31, 2024
US Convertible Debenture 2 (Navy Capital Green Fund) 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. 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 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, which the Company believes is unlikely to occur until the conversion price of the debentures is below the market price of the Company’s common stock. This amendment was accounted for as an extinguishment of debt, and a loss in the amount of $422,331 was recorded on this transaction. The fair values of the warrants and conversion options included in the calculation of the loss on extinguishment of debt were $223,515 and $198,816, respectively. On December 29, 2023, the U.S. Convertible Debenture 2 was amended as follows: (i) the conversion price of the debentures was reduced to $0.07 per unit; (ii) the conversion price of warrants underlying the units issuable upon conversion was reduced to $0.10 per share; (iii) principal payments in the amount of $8,000 per month are due for 48 months beginning January 31, 2024, and a balloon payment in the amount of $235,658 will be due on January 31, 2028; (iv) accrued interest in the amount of $54,053 was added to the principal balance. A loss on extinguishment of debt in the amount of $344,036 was charged to operations in connection with this transaction. During the years ended May 31, 2024 and 2023, the Company accrued interest in the amounts of $37,526 and $27,717, on the U.S. Convertible Debenture 2, respectively. During the three months ended August 31, 2024, the Company made principal and interest payments in the amount of $9,619 and $6,381, respectively, on the U.S. Convertible Debenture 2.	$	471,387	481,005

	August 31, 2024	May 31, 2024
Canaccord Debentures 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. 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, which the Company believes is unlikely to occur until the conversion price of the debentures is below the market price of the Company's common stock. 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. The fair values of the warrants and conversion options included in the calculation of the loss on extinguishment of debt were $2,623,852 and $1,923,808, respectively. On December 28, 2023, the Canaccord Debentures were amended as follows: (i) the conversion price of the debentures was reduced to $0.07 per unit; (ii) the conversion price of warrants underlying the units issuable upon conversion was reduced to $0.10 per share; (iii) the maturity date was extended to January 31, 2028; (iv) accrued interest in the amount of $186,111 was added to the principal balance and accrued interest in the amount of $465,012 was forgiven (v) Put Rights (the "Put Rights") were granted to the debenture holders granting each debenture holder the right to require the Company to redeem all or any part of the debenture in cash at a redemption price of 60% of face value (a loss on extinguishment of debt in the amount of $1,727,071 was charged to operations in connection with this transaction); (vi) interest accruing through February 28, 2025 will be added to the principal balance rather than paid to debenture holders; (v) debenture holders were granted an additional put right in the event the Company's cash available for debt service for any fiscal quarter exceeds $750,000, subject to pro ration, to require the Company to redeem all or any part of such debenture holder's outstanding Canaccord Debentures in cash at a redemption price equal to the aggregate principal amount of the Canaccord Debentures being so redeemed, (vi) a provision that the Company shall redeem on the last day of each calendar month beginning March 31, 2025 a portion of the outstanding Canaccord Debentures less the amount of interest paid on such date was added; and (vii) subject to the receipt of regulatory approvals, a security interest in certain of the Company's 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 the Company's debt, now or in the future, as the Company may elect was granted. On January 4, 2024, debenture holders exercised Put Rights with regard to the Canaccord Debentures with a principal amount of $3,875,095, the Company made a cash payment to the debenture holders in the amount of $2,325,056 representing 60% of the principal amount of these debentures, and the principal amount of $1,550,039 representing 40% of the principal amount of these debentures was forgiven. The principal balance of the Canaccord Dentures subsequent to the January 4 Put Rights exercise was $1,544,231. Interest at the rate of 8.0% per annum on this amount will be capitalized monthly through February 28, 2025. Principal and interest payments in the amount of $28,522 will be due monthly beginning March 31, 2025 and continuing through December 31, 2027; on January 31, 2028 a balloon payment in the amount of $1,038,777 will be due. A gain on settlement of debt in the amount of $2,015,051 was recognized in connection with this transaction. During the three months ended August 31, 2024, the Company capitalized interest in the amounts of $32,141 on the Canaccord Debentures.	1,628,538	1,596,396

	August 31, 2024	May 31, 2024
US Convertible Debenture 1 (Navy Capital Green Co-Invest Fund) Convertible debenture in the principal amount of $4,000,000 to a related party (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. 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, which the Company believes is unlikely to occur until the conversion price of the debentures is below the market price of the Company's common stock. 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. The fair values of the warrants and conversion options included in the calculation of the loss on extinguishment of debt were $894,090 and $795,278, respectively. On December 29, 2023, the U.S. Convertible Debenture 1 was amended as follows: (i) the conversion price of the debentures was reduced to $0.07 per unit; (ii) the conversion price of warrants underlying the units issuable upon conversion was reduced to $0.10 per share; (iii) the maturity date was extended to January 31, 2028; (iv) accrued interest in the amount of $215,414 was added to the principal balance. A loss on extinguishment of debt in the amount of $1,376,083 was charged to operations in connection with this transaction. During the three months ended August 31, 2024, the Company made principal and interest payments in the amount of $38,474 and $25,526, respectively, on the U.S. Convertible Debenture 1.	1,885,556	1,924,030
Total Convertible Notes Payable	$ 3,985,481	$ 4,001,431

	August 31, 2024	May 31, 2024
Total – Convertible Notes Payable, Current Portion	$ 375,025	$ 302,005
Total – Convertible Notes Payable, Long-term Portion	$ 3,610,456	$ 3,699,426

Note 14: Notes Payable – Related Party

		August 31, 2024		May 31, 2024
Promissory Note 1 ("APN1") PN1 Debenture in the principal amount of $475,000 (the "PN1") dated January 2, 2024, which bears interest at a rate of 12% per annum. Principal and interest payments are due monthly for 36 months in the amount $15,917 beginning February 29, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN1 in the amount of $35,079 and $12,673, respectively.	$	398,982	$	434,061
Promissory Note 2 ("PN2") PN2 in the principal amount of $465,000 (the "PN2") dated January 2, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 36 months in the amount $15,582 beginning February 29, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN2 in the amount of $34,040 and $12,407, respectively.		390,583		424,923
Promissory Note 3 ("PN3") PN3 in the principal amount of $450,000 (the "PN3") dated February 22, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 24 months in the amount $21,239 beginning March 31, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN3 in the amount of $52,221 and $11,496, respectively.		348,282		400,503
Promissory Note 4 ("PN4") PN4 in the principal amount of $300,000 (the "PN4") dated February 22, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 24 months in the amount $14,159 beginning March 31, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN4 in the amount of $34,814 and $7,664, respectively		232,188		267,002
Promissory Note 5 ("PN5") PN5 in the principal amount of $350,000 (the "PN5") dated February 22, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 24 months in the amount $16,519 beginning March 31, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN5 in the amount of $40,616 and $8,942, respectively.		270,887		311,503
Promissory Note 7 ("PN7") PN7 in the principal amount of $100,000 (the "PN7") dated March 6, 2024, which bears interest a rate of 12% per annum. Interest only payments are due quarterly in the amount of $3,500 for four quarters beginning March 29, 2024. The loan is due on February 28, 2025. During the three months ended August 31, 2024, the Company made principal and interest payments on PN7 in the amount of $0 and $3,500, respectively.		100,000		100,000
Promissory Note 8 ("PN8") PN8 in the principal amount of $134,000 (the "PN8") dated April 30, 2024, which bears interest a rate of 12% per annum. Principal and interest payments are due monthly for 24 months in the amount $6,308 beginning May 31, 2024. During the three months ended August 31, 2024, the Company made principal and interest payments on the PN8 in the amount of $15,204 and $1,340, respectively.		113,828		129,032
Promissory Note 9 ("PN9") PN9 in the principal amount of $2,600,000 (the "PN9") dated August 28, 2024. Principal in the amount of $2,200,000 automatically converted into 56,847,545 shares of the Company's common stock on August 30,2024; the remaining principal in the amount of $400,000 bears interest at the rate of 12% per annum and is due on August 28, 2025. See note 17. The conversion of the $2,200,000 in principal was at the market price per share of $0.0387 on the date of the note, and no gain or loss was recognized on this transaction. No interest was accrued on this note during the three months ended August 31, 2024.		400,000		-
Total	$	2,254,750	$	2,067,023

		August 31, 2024		May 31, 2024
Total Notes Payable – Related Party, Current Portion	$	1,415,392	$	988,472
Total Notes Payable – Related Party, Long Term Portion	$	839,358	$	1,078,551

Aggregate maturities of notes payable, convertible notes payable, and notes payable – related parties as of August 31, 2024 are as follows:

For the twelve months ended August 31,

2025	$	1,845,243
2026		1,386,939
2027		922,120
2028		2,790,759
Total	$	6,945,061

Note 15: Lease Liabilities - Financing Leases

		August 31, 2024		May 31, 2024
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 August 31, 2024, the Company made principal and interest payments on this lease obligation in the amounts of $23,168 and $7,431, respectively.	$	169,949	$	193,117
Financing lease obligation under an agreement for equipment dated June 20, 2022 in the original amount of $12,400 payable in forty-eight monthly installments of $350 including interest at a rate of 15.78%. During the three months ended August 31, 2024, the Company made principal and interest payments on this lease obligation in the amounts of $445 and $80, respectively.	$	2,914		3,359
Total	$	172,863	$	196,476
Current portion	$	104,251	$	96,224
Long-term maturities		68,612		100,252
Total	$	172,863	$	196,476

Aggregate maturities of lease liabilities – financing leases as of August 31, 2024 are as follows:

For the period ended August 31,

2025	$	104,251
2026		68,612
2027		-
2028		-
2029		-
Thereafter		-
Total	$	172,863

Note 16: Stockholders' Equity

The Company's authorized capital stock consists of 345,000,000 shares of common stock, par value $0.0001 per share, and 5,000,000 shares of preferred stock, par value $0.001 per share.

Common stock transactions for the three months ended August 31, 2024

On August 30, 2024, the Company issued 56,847,545 shares of common stock pursuant to the conversion $2,200,000 of the principal amount of a note payable (see note 17). No gain or loss was recorded on this transaction as the conversion occurred according to the term of the note.

Common stock transactions for the three months ended August 31, 2023

None.

The following table summarizes the significant terms of warrants outstanding at August 31, 2024. 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
$ 0.40-0.4125	20,726,901	1.55	$ 0.43	20,726,901	$ 0.43
	20,726,901	1.55	$ 0.43	20,726,901	$ 0.43

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, 2023	21,181,449	$ 0.46
Granted	-	$ -
Exercised	-	$ -
Cancelled / Expired	(454,548)	$ 0.41
Warrants outstanding at May 31, 2024	20,726,901	$ 0.43
Granted		
Exercised	-	$ -
Cancelled / Expired	-	$ -
Warrants outstanding at August 31, 2024	20,726,901	$ 0.43

Stock Options

Stock options for the three months ended August 31, 2024

During the three months ended August 31, 2024, 41,667 warrants issued to the Company's previous Chief Science Officer expired.

The following table summarizes the significant terms of options outstanding at August 31, 2024.

Range of exercise Prices	Number of options Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price of outstanding Options	Number of Options Exercisable	Weighted average exercise price of exercisable Option
$ 0.039	8,000,000	9.40	$ 0.039	1,833,332	$ 0.039

Transactions involving options are summarized as follows.

	Number of Shares	Weighted Average Exercise Price
Options outstanding at May 31, 2024	8,041,667	$ 0.039
Granted	-	$ -
Exercised	-	$ -
Cancelled / Expired	(41,667)	$ -
Options outstanding at August 31, 2024	8,000,000	$ 0.039

Stock options for the three months ended August 31, 2023

None.

During the three months ended August 31, 2024, the Company charged $28,802 to stock-based compensation expense, in connection with the vesting of stock options. There were no comparable charges during the three months ended August 31, 2023.

The aggregate intrinsic value of options outstanding and exercisable at August 31, 2024 and 2023 was $5,344 and $0, respectively. Aggregate intrinsic value represents the difference between the fair value of the Company's stock on the last day of the fiscal period, which was $0.043 as of August 31, 2024, and the exercise price multiplied by the number of options outstanding and exercisable.

Note 17: Related Party Transactions

As of August 31, 2024 and May 31, 2024, 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.

During the three months ended August 31, 2024, the Company made payments of $10,000 to two of its three directors for their participation on the Board, for a total of $20,000. The Company's CEO has waived his board fees for the period.

On August 28, 2024 the Company issued PN9, a note payable to a related party, in the principal amount of $2,600,000. Principal in the amount of $2,200,000 automatically converted into 56,847,545 shares of the Company's common stock on August 30,2024; the remaining principal in the amount of $400,000 bears interest at the rate of 12% per annum and matures on August 28, 2025. See note 16.

At August 31, 2024, there are seven related party notes outstanding with a total principal amount of $2,254,750. See note 14.

Note 18: Income Taxes

The following table summarizes the Company's income tax accrued for the three months ended August 31, 2024 and 2023:

The Company accounts for income taxes under FASB ASC 740-10, which provides for an asset and liability approach of accounting for income taxes. Under this approach, deferred tax assets and liabilities are recognized based on anticipated future tax consequences, using currently enacted tax laws, attributed to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts calculated for income tax purposes.

The components of the income tax provision include:

	Three Months Ended August 31,	
	2024	**2023**
Revenue	$ 4,805,165	$ 5,114,527
Directly attributable costs	(2,305,662)	(2,840,601)
Deferred	2,499,503	2,273,926
Tax rate	21%	21%
Tax expense	$ 524,896	$ 477,524

Note: Change in uncertain tax position with all tax expense recorded in current year due to change in estimate. No prior year net operating loss was considered.

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 19: Commitments and Contingencies

Legal Matters

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. As of the date of filing of this report, there were no pending or threatened lawsuits.

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 $1,867 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 increased on September 1, 2022 to $2,084. Effective September 1, 2024, the monthly rent was increased to $2,310, and the term of the lease was extended to August 31, 2029.

- 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. At August 31, 2024, the monthly rent on this lease was $10,679.

- 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%. At August 31, 2024, the monthly rent on this lease was $3,758.

- 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 in October 2023 for 2,547 square feet of office space located at 516 S. 4th Street, Las Vegas, NV 89101 for a term of five years and initial rent of $5,083 per month through September 30, 2024. The monthly rent will increase to $5,236 for the months of October 2024 through September 2025; $5,393 for the months of October 2025 through September 2026; $5,554 for the months of October 2026 through September 2027; and $5,721 for the months of October 2027 through September 2028.

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.

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. The $50,000 security deposit was forfeited to the Landlord and the Landlord has made no additional demands for payment or attempts at collection since August of 2017. These expenses, which are a liability of the Company’s Colorado subsidiary, have been accrued on the balance sheet as of August 31, 2024.

Note 20: Subsequent Events

On September 10, 2024, the Company closed a transaction to redeem (i) unsecured debentures in the principal amount of $2,868,282, (ii) 15,488,901 shares of the Company’s common stock, and (iii) warrants to purchase 6,117,216 shares of the Company’s common stock held by Navy Capital Green Fund, L.P., and related entities.

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

History

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. On April 29, 2015, we entered into a merger agreement with CLS Labs and a newly-formed, wholly owned subsidiary of the Company (the "Merger Sub") and effected the Merger (the "Merger"). Upon the consummation of the Merger, the separate existence of the Merger Sub ceased and CLS Labs, the surviving corporation in the Merger, became a wholly owned subsidiary of the Company, with the Company acquiring the stock of CLS Labs. As a result of the Merger, we acquired the business of CLS Labs and abandoned our previous business.

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.

We have been issued a U.S. patent with respect to our proprietary method of extracting cannabinoids from cannabis plants and converting the resulting cannabinoid extracts into concentrates such as oils, waxes, edibles and shatter. We have not commercialized our proprietary process and due to the current Nevada State laws governing these types of extraction methods, we do not intend to commercialize the proprietary process in the future. CLSH is engaged in attempting to find a buyer for the patent who may be able to use it in another state or another application.

Current Business and Outlook

We generate revenues through: (i) our retail dispensary (Oasis), and (ii) our City Trees cultivation and processing of cannabis and wholesale of cannabis-related products for Oasis and third-parties. We continue to explore opportunities for growth through the acquisition of companies, the creation of joint ventures, licensing agreements, and fee-for-service arrangements with growers and dispensaries of cannabis products. We believe that we can ultimately establish a position as one of the premier cannabinoid extraction and processing companies in the industry. We have created our own brand of concentrates for consumer use, which we sell wholesale to cannabis dispensaries. We are attempting to create a "gold standard" national brand by standardizing the testing, compliance and labeling of our products in an industry currently comprised of small, local businesses with erratic and unreliable product quality, testing practices and labeling.

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.

Results of Operations for the Three Months Ended August 31, 2024 and 2023

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

	Three Months Ended August 31, 2024	Three Months Ended August 31, 2023
Revenue	100%	100%
Cost of Goods Sold	57%	56%
Gross Margin	43%	44%
Selling, General, and Administrative Expenses	45%	53%
Interest expense	3%	9%
Provision for Income Tax	11%	9%

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

	Three Months Ended August 31, 2024	Three Months Ended August 31, 2023
Number of Customers Served (Dispensary)	66,257	71,566
Revenue	$ 4,805,165	$ 5,114,527
Gross Profit	$ 2,048,269	$ 2,273,926
Selling, General, and Administrative Expenses	$ 2,184,833	$ 2,729,900

Revenues

We had revenue of $4,805,165 during the three months ended August 31, 2024, a decrease of $309,362, or 6%, compared to revenue of $5,114,527 during the three months ended August 31, 2023. Our cannabis dispensary accounted for $3,067,075, or 64%, of our revenue for the three months ended August 31, 2024, a decrease of $241,467, or 7%, compared to $3,308,542 during the three months ended August 31, 2023. Dispensary revenue decreased during the first quarter of fiscal year 2025 because our average sales per day decreased from $35,962 during the first quarter of fiscal year 2024 to $33,338 during the first quarter of fiscal year 2025. Our cannabis production accounted for $1,738,090, or 36%, of our revenue for the three months ended August 31, 2024, a decrease of $67,896 or 4%, compared to $1,805,985 for the three months ended August 31, 2023.

Cost of Goods Sold

Our cost of goods sold for the three months ended August 31, 2024 was $2,756,896, a decrease of $83,705, or 3%, compared to cost of goods sold of $2,840,601 for the three months ended August 31, 2023. The decrease in cost of goods sold for the three months ended August 31, 2024 was primarily due to a decrease in sales. Cost of goods sold was 57.4% of sales during the three months ended August 31, 2024 resulting in a gross margin of 42.6%. Cost of goods sold was 55.5% of sales during the three months ended August 31, 2023 resulting in a gross margin of 44.5%. Cost of goods sold during the first quarter of the 2025 fiscal year primarily consisted of product cost of $2,2,12,051, labor, overhead, and fees of $451,234, supplies and materials of $88,953, and licenses and fees of $4,658. Cost of goods sold during the first quarter of the 2024 fiscal year primarily consisted of product cost of $2,400,010, labor and overhead of $331,127, supplies and materials of $100,989, and licenses and fees of $8,475.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, or SG&A, decreased by $545,067, or approximately 20%, to $2,184,833 during the three months ended August 31, 2024, compared to $2,729,900 for the three months ended August 31, 2023. The decrease in SG&A expenses for the three months ended August 31, 2024 was primarily due to decreases in payroll and related costs in the amount of $162,252 and professional fees in the amount of $154,910.

SG&A expense during the three months ended August 31, 2024 was primarily attributable to an aggregate of $1,701,524 in costs associated with operating the Oasis LLCs, a decrease of $504,356 compared to $2,205,880 during the three months ended August 31, 2023. The major components of the decrease were as follows: professional fees of $42,300 compared to $230,872; office expenses of $476,556 compared to $550,336; payroll and related costs of $1,113,163 compared to $1,171,719; sales and marketing costs of $76,456 compared to $115,461; and taxes & licenses of $159,582 compared to $187,586. The amount of SG&A expenses allocated to cost of sales during the period also increased from $362,926 to $403,228, further reducing the net amount of SG&A expenses. There were no categories of SG&A expenses that increased during the period compared to the prior year.

Finally, SG&A decreased by $40,711 during the three months ended August 31, 2024 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 $483,310 from $524,021 during the three months ended August 31, 2023. The major component of this decrease compared to the first quarter of fiscal 2025 was a decrease in payroll and related costs of $103,696. This decrease was partially offset by an increase in professional fees in the amount of $33,662 and non-cash compensation in the amount of $28,802.

Interest Expense, Net

Our interest expense was $159,403 for the three months ended August 31, 2024, a decrease of $298,069, or 65%, compared to $457,472 for the three months ended August 31, 2023. The decrease consisted primarily of a decrease in the amount $152,421 related to the amortization of discounts on notes payable; a decrease in the amount of $77,296 related to interest on our notes and debentures due to decreased principal balances; a decrease in the amount of $64,812 in connection our short term financing arrangements due to decreased principal balances; and a decrease in the amount of $3,540 in connection with our financing leases, also due to reduced principal balances.

Employee Retention Tax Credit

During the three months ended August 31, 2023, the Company received the amount of $924,862 under the provisions of the extension of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). This amount was recorded as other income. There was no comparable transaction in the current period.

Gain on settlement of accounts payable

During the three months ended August 31, 2023, we settled an outstanding vendor account in the amount of $8,375 for a cash payment of $4,000 representing a gain in the amount of $4,375. There was no comparable transaction in the current period.

Provision for Income Taxes

We recorded a provision for income taxes in the amount of $524,896 during the three months ended August 31, 2024 compared to $477,624 during the three months ended August 31, 2023. 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

For the reasons above, our net loss for the three months ended August 31, 2024 was $820,863 compared to a net loss of $461,733 for the three months ended August 31, 2023, an increase of $359,130, or 78%.

Non-Controlling Interest

During the three months ended August 31, 2024 and 2023, the income (loss) associated with the non-controlling interest in Kealii Okamalu was ($0) and ($2,108), 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 August 31, 2024 was $820,863 compared to a net loss of $463,841 for the three months ended August 31, 2023, an increase of $357,022 or 77%.

Non-GAAP Measures

EBITDA and Adjusted EBITDA are non-GAAP financial performance measures and should not be considered as alternatives to net income(loss) or any other measure derived in accordance with GAAP. These non-GAAP measure have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of our financial results as reported in accordance with GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies. As required by the rules of the SEC, we provide below a reconciliation of these non-GAAP financial measures 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. Management also believes that adjusting EBITDA for the effects of non-recurring transactions may provide insight into the nature of the core business. By providing these non-GAAP profitability measure, management intends to provide investors with a meaningful, consistent comparison of our profitability measures for the periods presented.

	Three Months Ended August 31, 2024	Three Months Ended August 31, 2023
Net Loss attributable to CLS Holdings, Inc.	$ (820,863)	$ (463,841)
Add:		
Interest expense, net	159,403	457,472
Provision for taxes	524,896	477,524
Depreciation and amortization	134,487	166,474
EBITDA (1)	$ (2,077)	$ 637,629
Less non-recurring gains and losses:		
Gain on settlement of accounts payable	$ -	$ (4,375)
Employee retention tax credit	-	(924,862)
Adjusted EBITDA (2)	$ (2,077)	$ (291,608)

(1)Net loss plus interest, taxes, depreciation, and amortization.
(2)EBITDA adjusted for non-recurring gains, losses, and impairments.

Liquidity and Capital Resources

Since our inception we have funded our operations and capital spending primarily through the issuance of debt and common stock. At August 31, 2024, we had cash of $3,121,349 (including restricted cash in the amount of $2,600,000) and a working capital deficit of $9,784,390; at October 8, 2024, we had cash of $941,951. We generated cash flow from operating activities of $252,250 for the three months ended August 31, 2024, compared to $783,250 for the three months ended August 31, 2023. As of August 31, 2024, we had an accumulated deficit of $114,187,913. The Company's auditors have included a going concern qualification in their audit report for the years ended May 31, 2024 and 2023.

During the past two years, we have been involved in a focused effort to reduce our debt burden through a combination of settlements, restructurings, principal payments, and conversions of debt to common stock. The following table illustrates the results of these efforts:

Principal balance of debt:

	August 31, 2024	May 31, 2024	May 31, 2023	May 31, 2022
Convertible notes payable including related party	$ 3,985,481	$ 4,001,431	$ 7,606,102	$ 19,448,821
Current portion	$ 375,025	$ 302,005	$ 3,853,051	$ 9,448,821
Notes Payable and Debentures	$ 704,830	$ 741,052	$ 3,472,661	$ 4,375,000
Current portion	$ 125,107	$ 139,345	$ 1,439,584	$ -
Notes Payable, Related Party	$ 2,254,750	$ 2,067,023	$ -	$ -
Current portion	$ 1,415,392	$ 988,472	$ -	$ -
Total	$ 6,945,061	$ 6,809,506	$ 11,981,102	$ 23,823,821
Current portion	$ 1,915,524	$ 1,429,822	$ 5,292,635	$ 19,448,821

We intend to continue these efforts to further reduce our debt burden in the coming year. During the three months ended August 31, 2024, we raised $2,600,000 from the issuance of a note payable to a related party; $2,200,000 of this amount was converted to 56,847,545 shares of common stock during the period, and $400,000 remains on the balance sheet as a note payable at August 31, 2024. The $2,600,000 was used to retire debt in the aggregate principal amount of $2,868,282 in September 2024. We believe we have resources in place with existing and prospective lenders to continue to reduce our debt burden, though there can be no guarantee that this will be the case.

Our working capital deficit is due primarily to accruals for taxes payable under Section 280E of the Internal Revenue Code in the amount of $9,424,759 and $8,899,863 at August 31, 2024. It is the Company's position that these taxes will not ultimately be owed. Removing this amount from the calculation of net working capital results in a working capital deficit of $359,631 at August 31, 2024.

The Company continues to generate positive cash flow from operating activities, which were $252,250 for the three months ended August 31, 2024 compared to $783,250 for the three months ended August 31, 2023. We intend to continue to focus on operational activities in order to further improve our cash flow.

We have one potential capital expenditure project planned for fiscal 2025, which is our proposed 3,700 square foot cannabis consumption lounge and 300 square foot outdoor patio area to be attached to the Oasis dispensary. We expect this project to require a capital expenditure in the range of $500,000 to $1,000,000, depending upon various buildout decisions.

We believe the resources are available to execute our business plan in the coming year from existing and prospective investors and from internally generated cash flow, though there is no guarantee that this will be the case.

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 $114,371,372 as of August 31, 2024, compared to $113,367,050 as of May 31, 2024. We had a working capital deficit of $9,784,390 as of August 31, 2024, compared to a working capital deficit of $10,928,252 as of May 31, 2024. The report of our independent auditors for the year ended May 31, 2024 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 August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40)”. This ASU reduces the number of accounting models for convertible debt instruments and convertible Preferred Stock. As well as amend the guidance for the derivatives scope exception for contracts in an entity’s own equity to reduce form-over-substance-based accounting conclusions. In addition, this ASU improves and amends the related EPS guidance. This standard is effective for us on June 1, 2024, including interim periods within such fiscal year. Adoption is either a modified retrospective method or a fully retrospective method of transition. We do not expect the implementation of this standard to have a material effect on our consolidated financial statements.

There are various other updates recently issued, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to a have a material impact on 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. The Company believes it now has an adequate number of trained personnel to resolve any segregation of duties deficiencies. Based on the evaluation, Mr. Glashow concluded that:

- We do not have an independent body to oversee our internal controls over financial reporting 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.

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.

None.

Item 6. Exhibits.

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: October 11, 2024	By: /s/ Andrew Glashow
	Andrew Glashow
	Chairman of the Board of Directors and Chief Executive Officer
	(Principal Executive, Financial and Accounting Officer)

EXHIBIT 31.1

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

I, 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.

October 11, 2024

/s/ Andrew Glashow
Andrew Glashow
Chairman of the Board of Directors and Chief Executive Officer
(Principal Executive, Financial and Accounting Officer)

EXHIBIT 32.1

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 August 31, 2024 (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: October 11, 2024

/s/ Andrew Glashow
Andrew Glashow
Chairman of the Board of Directors 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.