CANNABIS SCIENCE, INC.
Form 10-Q
November 22, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2010.

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from __________ to ___________

Commission File Number: 001-28911

CANNABIS SCIENCE, INC.

(Exact name of registrant as specified in its charter)

Nevada

91-1869677

(State or other jurisdiction of incorporation or

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

organization)

6946 N Academy Blvd., Suite B 254

Colorado Springs, CO 80918

(Address of principal executive offices,

including zip code)

888-889-0888

(Registrant s telephone number, including area code)

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 (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted

and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files). Yes (X) No ( )

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a not-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer o **Smaller reporting company þ**

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

Yes ( ) No (X)

At November 19, 2010, the Company had outstanding of 98,720,574 shares of Common Stock, $0.001 par value per share.

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Period Ended September 30, 2010

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ITEM 1. FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Balance Sheets

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
Current Assets		
Cash		

	$ 752	$ 243
Prepaid expenses	12,000	-
Total current assets	12,752	243
Computer and Equipment, net of accumulated depreciation of $2,119 and $1,311		

1,837

2,645

Intangibles, net of accumulated amortization

of $51,977 and $31,052

74,023

94,948

TOTAL ASSETS

$

88,612

$

97,836

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Accounts payable	$ 402,794	$ 412,862
Accrued expenses	115,791	113,914
Accrued expenses related party, wages, fees, bonuses	537,500	

		-
Due to related parties	118,900	66,500
Advances payable to officers	19,807	10,000
Convertible notes payable to stockholder	5,500	510,000
Total current liabilities and total liabilities	1,200,292	1,113,276

Stockholders' deficit

Preferred stock, $0.001 par value

Authorized 1,000,000 shares

Issued and outstanding, 999,999 shares

respectively

1,000

1,000

Common stock, $0.001 par value

Authorized 250,000,000 shares		
Issued and outstanding, 83,020,574 shares and 29,744,774 respectively	83,021	29,745
Additional paid-in capital	59,678,870	52,997,760
Prepaid consulting		

	(2,208,802)	-
Accumulated deficit	(58,665,769)	(54,043,945)
Total stockholders' deficit	(1,111,680)	(1,015,440)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 88,612	$ 97,836

The accompanying notes are an integral part of these financial statements.

CANNABIS SCIENCE, INC.

(A Development Stage Company)

Statements of Operations

(Unaudited)

Period from

January 27,

2005

For the three months

For the six months

(inception) to

ended September 30,

ended September 30,

September 30,

2010

2009

2010

2009

2010

$

$

$

$

$

Revenue

-

-

12,239

Operating Expenses

Investor relations

3,205

-

49,000

-

1,108,290

Professional fees	38,100	879,213	39,975	1,872,677	32,555,807
Technology license royalties	-	-	-	-	160,417
Impairment of oil and gas well lease	-	-	-	-	5,089,811
Net loss (gain) on settlement of liabilities	945,500	-	2,422,500		

-

(2,619,313)

Depreciation and Amortization

5,555

100

21,733

300

53,664

General and administrative

1,414,889

50,922

2,088,616

830,900

18,684,354

Total operating expenses

2,407,249

930,235

4,621,824

2,703,877

55,033,030

Net Operating Profit (Loss)

(2,407,249)

(930,235)

(4,621,824)

(2,703,877)

(55,020,791)

Other income

-

88

-

88

30,230

Interest expense, net

-

(19,764)

-

(59,082)

(150,348)

Beneficial conversion feature

-

-

-

-

(1,098,992)

Net Income (Loss) Before Income Taxes

(2,407,249)

(19,676)

(4,621,924)

(58,994)

(56,239,901)

Income tax provision

-

-

-

-

(2,035,065)

Income tax benefit

-

-

-

-

1,210,270

Net tax	-
	-
	-
	-
	(824,795)
Net Income (Loss) From Continuing Operations	(2,407,249)
	(949,911)
	(2,762,871)
	(2,762,871)

(57,064,696)

Discontinued operations

-

-

-

-

(2,425,868)

Income tax benefit

-

-

-

-

824,795

Net Loss

(2,407,249)

(949,911)

(4,621,824)

(2,762,871)

(58,665,769)

Net loss per common share

- Basic and diluted

(0.03)

(0.04)

(0.09)

(0.16)

Weighted average number of common shares outstanding	77,145,031
	22,366,000
	53,170,790
	16,750,000

The accompanying notes are an integral part of these financial statements.

CANNABIS SCIENCE, INC.

(A Development Stage Company)

Statement of Shareholders' Equity/(Deficit) for the

period from January 27, 2005 (inception) to September 30, 2010

(Unaudited)

Additional

Preferred

Common

Paid-in

Prepaid

Accum.

Shares

Par

Shares

Par

Capital

Consulting

Deficit

Total

$

$

$

$

$

$

Bal, Jan 27, 2005

-

-

-

-

-

	-
	-
Founder's stock issued	
	83,800
	84
	(84)
	-
Stock issued for debt	
	8,000
	8
	399,992
	400,000
Shares issued for	

license agreement

86,188

86

(86)

-

Effect of reverse merger

13,840

14

(200,014)

(200,000)

Divestiture of subsidiary

to related party

-

-

544,340

544,340

Net loss for the period

(807,600)

(807,600)

Bal, Dec 31, 2005

-

-

191,828

192

744,148

-

(807,600)

(63,260)

Shares issued for

employment

45,500

45

8,487,455

8,487,500

Shares issued for

service

171,080

171

28,798,329

(7,633,750)

21,164,750

Shares issued for

lease agreement

6,770

7

406,193

(350,200)

56,000

Net loss for the year

(36,906,584)

(36,906,584)

Bal, Dec 31, 2006

-

-

415,178

415

38,436,125

(7,633,750)

(38,064,384)

(7,261,594)

Shares issued for

service

63,020

63

528,285

(387,500)

140,848

Shares issued for

debt	
	350,000
	350
	349,650
	350,000
Amortization of	
beneficial conversion	

feature

1,066,657

1,066,657

Amortization of shares

issued for services

8,021,250

8,021,250

Shares issued for

properties

500,000

500

4,999,500

5,000,000

Net loss for the year

(15,007,117)

(15,007,117)

Bal, Dec 31, 2007

-

-

1,328,198

1,328

45,380,217

-

(53,071,501)

(7,689,956)

The accompanying notes are an integral part of these financial statements.

	Preferred Shares	Par $	Common Shares	Par $	Additional Paid-in Capital $	Prepaid Consulting $	Accum. Deficit $	Total $
Bal, Dec 31, 2007	-	-	1,328,198	1,328	45,380,217	-	(53,071,501)	(7,689,956)
Amortization of beneficial conversion feature					32,335			32,335
Cancellation and amortization of shares			(919)	(1)	1			-
Shares issued for cash			10,000	10	19,990			20,000
Shares issued for debt			990,000	990	98,010			99,000

Shares issued for acquisition			10,000,000	10,000	2,490,000			2,500,000
Shares issued for service			270,000	270	128,230			128,500
Net profit for the year							3,559,617	3,559,617
Bal, Dec 31, 2008	-	-	12,597,279	12,597	48,148,783	-	(49,511,884)	(1,350,504)
Shares issued for cash			2,522,495	2,523	197,552			200,075
Shares issued for service			8,855,000	8,855	2,507,195			2,516,050
Cancellation of shares			(10,000)	(10)	10			-
Shares issued for debt			3,680,000	3,680	2,020,320			2,024,000
Shares issued for service	999,999	1,000						1,000
Shares issued for assets			2,100,000	2,100	123,900			126,000
Net loss for the year							(4,532,061)	(4,532,061)
Bal, Dec 31, 2009	999,999	1,000	29,744,774	29,745	52,997,760	-	(54,043,945)	(1,015,440)
Shares issued for cash			1,245,800	1,246	137,540			138,786
Shares issued for services			26,330,000	26,330	3,642,270	(3,535,000)		133,600
Shares issued for debt			25,700,000	25,700	2,901,300			2,927,000
Amortization of shares issued for services						1,326,198		1,326,198
Net loss for the period							(4,621,824)	(4,621,824)
	999,999	1,000	83,020,574	83,021	59,678,870	(2,208,802)	(58,665,769)	(1,111,680)

The accompanying notes are an integral part of these financial statements.

CANNABIS SCIENCE, INC.

(A Development Stage Company)

Statements of Cash Flows

(Unaudited)

Period from

January 27,

2005

For the nine months

(inception) to

ended September 30,

September 30,

2010

2009

2010

$

$

$

Cash Flows (Used In) Provided By :

Operating Activities

Net loss

(4,621,824)

(2,762,871)

(58,665,769)

Plus:

Net loss from discontinued operations	-	-	1,601,073
Total net loss	(4,621,824)	(2,762,871)	(57,064,696)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation and amortization	21,733	300	36,188
Impairment on oil lease investments	-	-	5,076,667
Shares issued for services	1,459,798	2,350,550	33,882,365
(Gain) Loss on settlement of debt	2,422,500	-	3,881,338
Amortization expense			

-

9,501,495

Changes in operating assets and liabilities:

Accounts receivable

-

-

(2,087)

Prepaid expenses

(12,000)

-

(12,000)

Inventory

-

-

(29,102)

Accounts payable

(10,068)

53,601

1,538,579

Accrued expenses

1,877

170,056

(938,264)

Accrued expenses related party, wages, fees, bonuses

537,500

-

537,500

Due to related parties

52,400

-

118,900

Accrued interest payable to affiliate

-

-

214,982

Net cash provided by (used in) continuing

operating activities

(148,084)

(188,364

(3,258,135)

Net cash provided by discontinued

operating activities

-

-

898,927

Net cash used in operating activities

(148,084)

(188,364

(2,359,208)

Investing Activities

Purchase of oil & gas leases

-

-

(30,000)

Purchase of property, plant & equipment

-

(1,956

(42,908)

Net cash used in investing activities

-

(1,956

(72,908)

Financing Activities

Proceeds from convertible note-related party

-

-

951,342

Advances from related parties

9,807

48,469

1,122,665

Proceeds from sale of common stock	138,786	146,950	358,861
Net cash provided by financing activities	148,593	195,419	2,432,868
Increase/(Decrease) in Cash	509	5,099	752
Cash, beginning	243	580	-
Cash, ending			

752

5,679

752

Supplemental Cash Flow Information:

Issuance of common stock for services	3,668,600	2,349,550	6,175,795
Related party note payable	-	-	250,000
Net liabilities assumed with recapitalization	-	-	200,000
Divestiture of subsidiary to related party	-	-	544,340

Common stock issued for debt

2,927,000

-

6,100,000

Common stock issued for acquiring

oil and gas leases

-

-

7,906,200

Issuance of common stock for assets

-

525,000

126,000

Issuance of preferred stock for services

-
1,000
1,000

The accompanying notes are an integral part of these financial statements.

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CANNABIS SCIENCE, INC.

(formerly Gulf Onshore, Inc.)

Notes to Financial Statements

September 30, 2010

(Expressed in US Dollars)

Note 1 - Organization and Business Operations

Cannabis Science, Inc. (We or the Company), was incorporated under the laws of the State of Colorado, on February 29, 1996, as Patriot Holdings, Inc. On August 26, 1999, the Company changed its name to National Healthcare Technology, Inc., and commenced a business plan to develop Magkelate, a patented intravenous drug developed to re-establish normal electrolyte balance in ischemic tissue and certain other patents for medical instruments and medical instrument technology. On January 14, 2000, the Company filed its Form 10SB12G. In 2002, the Company ceased its medical technology business following the death of Magkelate s inventor. The Company conducted no substantial business until 2005.

In July 2005, the Company acquired Es3, Inc., a Nevada Corporation ("Es3"), pursuant to the terms of an Exchange Agreement (the "Exchange Agreement") by and among the Company, Crown Partners, Inc., a Nevada corporation ("Crown Partners"), Es3, and certain stockholders of Es3 (the "Es3 Stockholders"). Under the terms of the Exchange Agreement, the Company acquired all of the outstanding capital stock of Es3 in exchange for the issuance of 191,828 shares of the Company's common stock (adjusted for splits) to the Es3 Stockholders, Crown Partners and certain consultants. The transactions effected by the Exchange Agreement were accounted for as a reverse merger, and recapitalization. In addition, the Company changed its accounting year-end from September 30 to December 31, which was Es3's accounting year-end. The Company then commenced business manufacturing and marketing products under the name Special Stone Surfaces. The Company sold its shares in Es3 in October 2005, and thereafter conducted no substantial business until 2006.

On April 3, 2006, the Company acquired a group of oil and gas leases in Oklahoma in exchange for issuance of common stock and commenced the business of oil and gas exploration and production, mineral lease purchasing and all activities associated with acquiring, operating and maintaining the assets of such operations. On June 6, 2007, the Company changed its name from National Healthcare Technology, Inc., to Brighton Oil & Gas, Inc., and converted to a Nevada corporation. The Company acquired additional oil and gas leases during 2007, all for issuance of common stock; in October 2007, the Company acquired leases from K & D Equity Investments, Inc., a Texas corporation in a transaction that effected a change of control, with K & D acquiring a majority stake in the Company. The Company also entered into a Line of Credit Agreement with South Beach Live, Inc., a Florida corporation, to provide it with working capital of up to $100,000 on a revolving credit line. The Agreement permitted South Beach the right to repayment on demand, or to convert amounts owed for shares.

On March 25, 2008 the Company changed its name to Gulf Onshore, Inc. On June 6, 2008, the Company entered into an Asset Acquisition Agreement with K & D to acquire additional leases (the Leases) in exchange for common stock and a Stock Purchase Agreement (SPA) with South Beach Live, Inc., a Florida corporation, to purchase 100% of the common shares of Curado Energy Resources, Inc., a Texas corporation (Curado). Curado is registered with the Texas Railroad Commission as an oil and gas well operator, and is the operator for the Leases. The Company acquired the Leases into Curado, in exchange for shares issued to K & D. The Company issued South Beach a promissory note for $250,000, payable in 1 year at 10% interest, which was guaranteed by Curado. The Company consolidated the operations of Curado commencing in 3Q 2008.

In August 2008, the Company granted South Beach a security interest in its Curado shares and the Curado assets, in exchange for concessions from South Beach regarding further cash advances and future stock conversions. This transaction was contemplated and further consummated by the Company due to declining oil prices throughout 3Q 2008 and increased operating costs, which made continued oil and gas operations on the Leases unprofitable. The Company was also continually drawing down on its Line of Credit Agreement with South Beach that created unsustainable working capital pressure.

On October 6, 2008, in the face of further oil price declines and general economic conditions, the Company and South Beach entered into an Accord and Satisfaction Agreement under which the Company surrendered its interest in the Putnam M oil and gas lease in Throckmorton Co., Texas in exchange for a complete release on the Promissory Note and Line of Credit. In addition, the Company waived any claim on the shares of Curado common stock that secured the Promissory Note or the assets of Curado. South Beach then made claim against Curado under the guarantee agreement and then exercised its rights under the collateral agreement. As a result, the Company s 4Q 2008, financial statements reflected the disposition of Curado and its assets, and furthermore that the Company has, once again, become a Development Stage Company seeking a new business partner or acquisition. A Form 8-K reflecting this transaction was timely filed.

On March 30, 2009, the Company entered into an agreement with Cannex Therapeutics, LLC, (Cannex) a California limited liability company, and its principal, medical cannabis pioneer and entrepreneur Steven W. Kubby, to acquire all of their interest in certain assets used to conduct a cannabis research and development business. The asset purchase agreement includes all of Cannex and Kubby s intellectual property rights, formulas, patents, trademarks, client base, hardware and software, including the website www.phytiva.com. The Company and its largest shareholder, K & D Equities, Inc., exchanged a total of 10,600,000 shares of common stock for the assets of Cannex; the Company issued 2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed.

As part of the Agreement, on April 1, 2009, the Company appointed Mr. Kubby as President and CEO, Richard Cowan as Director and CFO, and Robert Melamede Ph. D., as Director and Chief Science Officer. Each of them was also appointed as a director. All of the Company s current directors then resigned. On April 7, 2009, the Company changed its name to Cannabis Science, Inc. and obtained a new CUSIP number. Its shares now trade under the symbol CBIS.OB. A Form 8-K was timely filed, with a copy of the Asset Acquisition Agreement and Board Resolution ratifying the Agreement provided as exhibits thereto.

On April 7, 2009, the Company changed its name to Cannabis Science, Inc., reflecting its new business mission: Cannabis Science, Inc. is at the forefront of medical marijuana research and development. The Company works with world authorities on phytocannabinoid science targeting critical illnesses, and adheres to scientific methodologies to develop, produce, and commercialize phytocannabinoid-based pharmaceutical products. In sum, we are dedicated to the creation of cannabis-based medicines, both with and without psychoactive properties, to treat disease and the symptoms of disease, as well as for general health maintenance.

Cannabis Science Inc. has also launched its new website www.cannabisscience.com reflecting its new name.

On May 7, 2009 the Company common shares commenced trading under the new stock symbol OTCBB: CBIS.

In response to a comment letter received from the Staff of the Securities and Exchange Commission, the Company has treated the disposition of Curado in connection with the Accord and Satisfaction Agreement between the Company and South Beach as a disposition of a subsidiary and has presented Curado s operations in the financial statements as discontinued operations.

On May 8, 2010, the Company entered into a share purchase agreement to acquire Rockbrook, Inc., a Colorado dispensary in exchange for 400,000 restricted common shares in the Company. Due to a change in Colorado legislation preventing outside residents from owning a dispensary within the state, the Company and the sole Rockbrook shareholder agreed to and entered into a Mutual Termination Agreement on July 27, 2010 to retroactively cancel the acquisition.

On July 27, 2010, the Company signed a mutual termination agreement (MTA) to cancel the Share Purchase Agreement to acquire Rockbrook Inc. (Rockbrook). Due to regulatory changes in the state of Colorado it was no longer permissible for the Company to own Rockbrook, a Colorado dispensary, and therefore the May 8, 2010 acquisition was retroactively cancelled along with the 400,000 restricted common shares issued on May 14, 2010 to the sole shareholder of Rockbrook. The Company had not yet taken possession of Rockbrook shares or assets at the time of signing the MTA.

On August 19, 2010, the Company signed a license agreement with RockBrook Inc, a medical marijuana medicines company. RockBrook has been granted the full latitude and rights to manufacture, develop, produce, distribute and sell products developed from, or based on, Cannabis Science formulations, and delivery systems for the Cannabis Science Brand of Pharmaceutical Products and Cannabis Science Ailment Formulations within the State of Colorado. Under the agreement RockBrook will pay Cannabis Science an initial licence fee of $25,000, payable within the first year. RockBrook will also pay the Company a quarterly royalty payment of 50% of all positive revenues derived from the the Company Brand of Pharmaceutical Products. Additionally, in the event RockBrook executes any sublicensing agreements, Cannabis Science is entitled to royalty payments of 50% of all positive revenues received by the licensee for sales of any Cannabis Science Brand of Pharmaceutical Products. Within two years RockBrook is expected to invest a minimum of $250,000 in research and development for the Cannabis Science Brand of Pharmaceutical Products and will also pay the Company a renewable licence fee, payable annually on the anniversary of the execution of this agreement. The first anniversary payment will be $25,000, the second $50,000, third $75,000 and fourth $100,000. The fifth and subsequent anniversary payments will be $150,000.

Note 2 - Summary of Significant Accounting Policies

a) 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 s fiscal year end is December 31.

b) Interim Financial Statement

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

c) Use of Estimates

The preparation of these financial statements in conformity with US 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company regularly evaluates estimates and assumptions related to stock-based compensation and deferred income tax valuations. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company s estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

d) Basic and Diluted Net Income (Loss) Per Share

Under ASC 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2009 to September 30, 2010 and from inception through September 30, 2010, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

e) Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

f) Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality and the customer s creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time.

g) Income Taxes

Under ASC 740, Income Tax , the Company is required to account for its income taxes through the establishment of a deferred tax asset or liability for the recognition of future deductible or taxable amounts and operating loss and tax credit carry forwards. Deferred tax expense or benefit is recognized as a result of timing differences between the recognition of assets and liabilities for book and tax purposes during the year.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized for deductible temporary differences and operating loss, and tax credit carry forwards. A valuation allowance is established to reduce that deferred tax asset if it is "more likely than not" that the related tax benefits will not be realized.

h) Stock-Based Compensation

Effective January 1, 2006, the Company adopted ASC 718-10, Compensation - Stock Compensation ("ASC 718-10"), using the modified-prospective method. Under ASC 718-10, share-based compensation cost is estimated at the grant date based on the fair value of the award and is recognized as expense, net of estimated pre-vesting forfeitures, ratably over the applicable period of the award.

i) Development Stage Enterprise

The Company is currently in the development stage as defined under the provisions of Accounting Codification Standard ("ASC") 915-10. In October 2008, the Company divested itself of its operating company, Curado Energy Resources, Inc. Beginning with the fiscal fourth quarter of 2008 the Company again became a development stage company. The Company is working on developing its medical cannabis business, which will be comprised of cannabinoid medicines approved through the FDA along with non-psychotropic medicines for the naturopathy market.

j) Recently Issued Accounting Pronouncements

During the year ended December 31, and through November 22, 2010, there were several new accounting pronouncements issued by the FASB the most recent of which was Accounting Standards Update 2010-26, *Financial Services Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts.* Each of these pronouncements, as applicable, has been or will be adopted by the Center.

Management has reviewed these new standards and believes that they have no material impact on the financial statements of the Company.

Note 3 Going Concern

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported an accumulated deficit of $58,665,769 and had a stockholder s deficit of $1,111,680 at September 30, 2010.

In view of the matters described, there is substantial doubt as to the Company's ability to continue as a going concern without a significant infusion of capital. At September 30, 2010, the Company had minimal operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We anticipate that we will have to raise additional capital to fund operations over the next 12 months. To the extent that we are required to raise additional funds to acquire research and growing facilities, and to cover costs of operations, we intend to do so through additional public or private offerings of debt or equity securities. There are no commitments or arrangements for other offerings in place, no guaranties that any such financings would be forthcoming, or as to the terms of any such financings. Any future financing may involve substantial dilution to existing investors. We had been relying on our common stock to pay third parties for services which has resulted substantial dilution to existing investors.

Note 4 - Due to Related Parties

As at September 30, 2010, $118,900 was due to related parties and these amounts are non-interest bearing, unsecured and have no specific terms of repayment.

At September 30, 2010, related party amounts of $237,500 and $300,000 were accrued for management fees and bonuses, respectively.

Note 5 Common Stock

<u>During the three-months ended September 30, 2010, the Company issued the following common stock:</u>

During July and August 2010, the Company issued 16,850,000 common shares for settlement of $168,500 of shareholder note payable.

On July 15, 2010, the Company issued 5,950,000 restricted common shares to shareholders of Montana Pain Management (MPM), 5,000,000 of which went to the principal shareholder, under management consulting agreements in conjunction with the agreed acquisition of the company. The Company was to receive 11,679,390 common shares representing 100% of the total issued and outstanding common shares of MPM. On July 22, 2010, the Company was notified by the majority shareholder of MPM that he had reconsidered the financial aspects of the signed Share Purchase Agreement and that he was not going to complete the agreement or deliver the shares of MPM to the Company, effectively cancelling the transaction. In addition, the Company discovered the principal shareholder of MPM was entering into an agreement with a scientific advisor of the Company who was introduced to the MPM shareholder; in direct and intentional breach of the non-disclosure and non-circumvention agreement, which he had signed with the Company on June 11, 2010. On July 23, 2010, the Company notified the principal shareholder of MPM, through his legal counsel, that he was in breach of a non-disclosure and non-circumvention agreement with the Company that he had signed on June 11, 2010 by engaging a scientific advisor who had been negotiating with the Company in violation of the non-disclosure agreement. All common shares issued to MPM shareholders were returned to the Company for cancellation with the exception of 100,000 shares which are reflected in shares issued for services on the accompanying statement of shareholders deficit. The Company is currently consulting with legal counsel and intends to proceed with legal action against Montana Pain Management and its principal shareholder (see Item 1 Legal Proceedings to this 10-Q).

During the quarter ended September 30, 2010, the Company issued 100,000 restricted common shares at $0.05 to an individual for proceeds of $5,000.

Note 6 Computer and Equipment

Equipment	$	1,717
Computer		120
	$	1,837

Computer and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred and the cost of renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated lives of the related assets, 2 years for computer and 5 years for equipment.

Note 7 Intangible Assets

Intellectual assets, primarily intellectual property	$	126,000
Less accumulated amortization		51,977
	$	71,023

Intangible assets are stated at fair value on the date of purchase less accumulated amortization. Amortization is computed using the straight-line method over the estimated lives of the related assets (5 years for intellectual assets).

Note 8 - Subsequent Events

On October 1, 2010, the Company entered into related party promissory notes for approximately $130,000.

On October 4, 2010, the Company issued 6,700,000 common shares to settle $67,000 of shareholder notes payable.

On October 19, 2010, the Company issued 9,000,000 common shares to settle $90,000 of shareholder notes payable.

On November 22, 2010, the Company signed an operating lease for its new laboratory facility and paid a security deposit of $6,666. The term of the lease is for a period of five years and three months commencing November 22, 2010 and expiring on February 15, 2016, with the first three months rent-free.

Commitments under the lease, for base rent are as follows:

2010	Nil
2011	$43,170
2012	$48,918
2013	$50,908
2014	$52,898
2015	$54,888
2016	$ 4,588

Additional rent (TICAM) is estimated at $24,940 with a 7% annual increase cap on controllable expenses throughout the lease.

All subsequent events have been reviewed for required disclosure up to and including November 22, 2010.

PART I

This Interim Report on Form 10-Q contains forward-looking statements that have been made pursuant to the provisions of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, and the Private Securities Litigation Reform Act of 1995 and concern matters that involve risks and uncertainties that could cause actual results to differ materially from historical results or from those projected in the forward-looking statements. Discussions containing forward-looking statements may be found in the material set forth under Business, Management s Discussion and Analysis of Financial Condition and Results of Operations and in other sections of this Form 10-Q. Words such as may, will, should, could, expect, plan, anticipate, believe, estimate, predict, potential, continue or similar words are intended to identify forward-looking statements, although not all forward-looking statements contain these words. Although we believe that our opinions and expectations reflected in the forward-looking statements are reasonable as of the date of this Report, we cannot guarantee future results, levels of activity, performance or achievements, and our actual results may differ substantially from the views and expectations set forth in this Interim Report on Form 10-Q. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations.

Readers should carefully review and consider the various disclosures made by us in this Report, set forth in detail in Part I, under the heading Risk Factors, as well as those additional risks described in other documents we file from time to time with the Securities and Exchange Commission, which attempt to advise interested parties of the risks, uncertainties, and other factors that affect our business. We undertake no obligation to publicly release the results of any revisions to any forward-looking statements to reflect anticipated or unanticipated events or circumstances occurring after the date of such statements.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This section of this report includes a number of forward-looking statements that reflect our current views with respect to future events and financial performance. Forward-looking statements are often identified by words like: believe, expect, estimate, anticipate, intend, project and similar expressions, or words which, by their nature, refer to future events. You should not place undue certainty on these forward-looking statements, which apply only as of the date of this report. These forward-looking states are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or our predictions.

Overview of the Company s Business

Cannabis Science, Inc. (formerly Gulf Onshore, Inc.) (We or the Company), was incorporated under the laws of the State of Colorado, on February 29, 1996, as Patriot Holdings, Inc. On August 26, 1999, the Company changed its name to National Healthcare Technology, Inc., and commenced a business plan to develop Magkelate, a patented intravenous drug developed to re-establish normal electrolyte balance in ischemic tissue and certain other patents for medical instruments and medical instrument technology. On January 14, 2000, the Company filed its Form 10SB12G. In 2002, the Company ceased its medical technology business following the death of Magkelate s inventor. The Company conducted no substantial business until 2005.

In July 2005, the Company acquired Es3, Inc., a Nevada Corporation ("Es3"), pursuant to the terms of an Exchange Agreement (the "Exchange Agreement") by and among the Company, Crown Partners, Inc., a Nevada corporation ("Crown Partners"), Es3, and certain stockholders of Es3 (the "Es3 Stockholders"). Under the terms of the Exchange Agreement, the Company acquired all of the outstanding capital stock of Es3 in exchange for the issuance of 191,828 shares of the Company's common stock (adjusted for splits) to the Es3 Stockholders, Crown Partners and certain consultants. The transactions effected by the Exchange Agreement were accounted for as a reverse merger, and recapitalization. In addition, the Company changed its accounting year-end from September 30 to December 31, which was Es3's accounting year-end. The Company then commenced business manufacturing and marketing products under the name Special Stone Surfaces. The Company sold its shares in Es3 in October 2005, and thereafter conducted no substantial business until 2006.

On April 3, 2006, the Company acquired a group of oil and gas leases in Oklahoma in exchange for issuance of common stock and commenced the business of oil and gas exploration and production, mineral lease purchasing and all activities associated with acquiring, operating and maintaining the assets of such operations. On June 6, 2007, the Company changed its name from National Healthcare Technology, Inc., to Brighton Oil & Gas, Inc., and converted to a Nevada corporation. The Company acquired additional oil and gas leases during 2007, all for issuance of common stock; in October 2007, the Company acquired leases from K & D Equity Investments, Inc., a Texas corporation in a transaction that effected a change of control, with K & D acquiring a majority stake in the Company. The Company also entered into a Line of Credit Agreement with South Beach Live, Inc., a Florida corporation, to provide it with working capital of up to $100,000 on a revolving credit line. The Agreement permitted South Beach the right to repayment on demand, or to convert amounts owed for shares.

On March 25, 2008 the Company changed its name to Gulf Onshore, Inc. On June 6, 2008, the Company entered into an Asset Acquisition Agreement with K & D to acquire additional leases (the Leases) in exchange for common stock and a Stock Purchase Agreement (SPA) with South Beach Live, Inc., a Florida corporation, to purchase 100% of the common shares of Curado Energy Resources, Inc., a Texas corporation (Curado). Curado is registered with the Texas Railroad Commission as an oil and gas well operator, and is the operator for the Leases. The Company acquired the Leases into Curado, in exchange for shares issued to K & D. The Company issued South Beach a promissory note for $250,000, payable in 1 year at 10% interest, which was guaranteed by Curado. The Company consolidated the operations of Curado commencing in 3Q 2008.

In August 2008, the Company granted South Beach a security interest in its Curado shares and the Curado assets, in exchange for concessions from South Beach regarding further cash advances and future stock conversions. This transaction was contemplated and further consummated by the Company due to declining oil prices throughout 3Q 2008 and increased operating costs, which made continued oil and gas operations on the Leases unprofitable. The Company was also continually drawing down on its Line of Credit Agreement with South Beach that created unsustainable working capital pressure.

On October 6, 2008, in the face of further oil price declines and general economic conditions, the Company and South Beach entered into an Accord and Satisfaction Agreement under which the Company surrendered its interest in the Putnam M oil and gas lease in Throckmorton Co., Texas in exchange for a complete release on the Promissory Note and Line of Credit. In addition, the Company waived any claim on the shares of Curado common stock that secured the Promissory Note or the assets of Curado. South Beach then made claim against Curado under the guarantee agreement and then exercised its rights under the collateral agreement. As a result, the Company s 4Q 2008, financial statements reflected the foreclosure of Curado and its assets, and furthermore that the Company has, once again, become a Development Stage Company seeking a new business partner or acquisition. A Form 8-K reflecting this transaction was timely filed.

On March 30, 2009, the Company entered into an agreement with Cannex Therapeutics, LLC, (Cannex) a California limited liability company, and its principal, medical cannabis pioneer and entrepreneur Steven W. Kubby, to acquire all of their interest in certain assets used to conduct a cannabis research and development business. The asset purchase agreement includes all of Cannex s and Kubby s intellectual property rights, formulas, patents, trademarks, client base, hardware and software, including the website www.phytiva.com. The Company and its largest shareholder, K & D Equities, Inc., exchanged a total of 10,600,000 shares of common stock for the assets of Cannex; the Company issued 2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed. Please see Note 6 to the financial statements.

As part of the Agreement, on April 1, 2009, the Company appointed Mr. Kubby as President and CEO, Richard Cowan as Director and CFO, and Robert Melamede Ph. D., as Director and Chief Science Officer. Each of them was also appointed as a director. All of the Company s current directors then resigned. On April 7, 2009, the Company changed its name to Cannabis Science, Inc., and obtained a new CUSIP number. Its shares now trade under the symbol CBIS.OB. A Form 8-K was timely filed, with a copy of the Asset Acquisition Agreement and Board Resolution ratifying the Agreement provided as exhibits thereto.

On April 7, 2009, the Company changed its name to Cannabis Science, Inc., reflecting its new business mission: Cannabis Science, Inc. is at the forefront of medical marijuana research and development. The Company works with world authorities on phytocannabinoid science targeting critical illnesses, and adheres to scientific methodologies to develop, produce, and commercialize phytocannabinoid-based pharmaceutical products. In sum, we are dedicated to the creation of cannabis-based medicines, both with and without psychoactive properties, to treat disease and the symptoms of disease, as well as for general health maintenance. The Company obtained a new CUSIP number as well. Cannabis Science Inc. has also launched its new website www.cannabisscience.com reflecting its new name.

On May 7, 2009, the Company common shares commenced trading under the new stock symbol OTCBB: CBIS.

On May 8, 2010, the Company signed a Share Purchase Agreement to acquire Rockbrook, Inc., a Colorado medical cannabis dispensary. Due to regulatory changes that prevented a non-Colorado resident from owning a dispensary within the state, the Company signed a mutual termination agreement with Rockbrook on July 27, 2010 to retroactively cancel the acquisition.

The Company is in the development stage as defined in ASC 915.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, that our disclosure controls and procedures were not effective.

There were no changes in our internal controls or in other factors during the period covered by this report that have materially affected, or are likely to materially affect the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Management of the Company is currently consulting with legal counsel and intends to proceed with legal action against Montana Pain Management and its principal shareholder for breach of a Non-Disclosure/Non-Circumvention Agreement that was entered into on June 11, 2010.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

<u>During the three months ended September 30, 2010, we have issued securities using exemptions available under the Securities Act of 1933:</u>

<u>As set out below, we sold the following unregistered securities:</u>

On August 19, 2010, the Company issued 100,000 restricted common shares at $0.05 to an individual for proceeds of $5,000.

As set out below, we have issued securities in exchange for services, properties and for debt:

On July 15, 2010, the Company issued 750,000 restricted common shares at $0.08 per share to an individual for services rendered through July 26, 2011.

On July 15, 2010, the Company issued 8,000,000 common shares for settlement of $80,000 of shareholder note payable.

On July 15, 2010, the Company issued 5,950,000 restricted common shares to shareholders of Montana Pain Management (see Notes to Financial Statements - Note 4, p.F-9)

On September 30, 2010, the Company issued 200,000 restricted common shares at $0.05 to two individuals for proceeds of $10,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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.

CANNABIS SCIENCE, INC.

Date: November 22, 2010

By: /s/ Robert Melamede

Dr. Robert Melamede, President and

Chief Executive Officer

Date: November 22, 2010

By: /s/ Richard Cowan

Richard Cowan, Chief Financial Officer