

CANNABIS SCIENCE, INC.  
Form 10-Q  
August 18, 2014

**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: June 30, 2014

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)

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Nevada  
(State or other jurisdiction of incorporation or  
organization)

91-1869677  
(I.R.S. Employer Identification No.)

6946 N Academy Blvd, Suite B #254 Colorado Springs,  
CO  
(Address of principal executive offices)

80918  
(Zip Code)  
888-889-0888

(Registrant's telephone number, including area code)

-

-

—

(Former name, former address and former fiscal year, if  
changed since last report)

-

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. [X] Yes [ ] 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). [X] Yes [ ] No

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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 ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒

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

Number of common shares outstanding at August 14, 2014: 846,423,906

Number of Class A common shares outstanding at August 14, 2014: 0

**CANNABIS SCIENCE, INC.**

**FORM 10-Q**

For the Period Ended June 30, 2014

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## **PART 1 FINANCIAL INFORMATION.**

### **ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS**

**CANNABIS SCIENCE, INC.**

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**CANNABIS SCIENCE, INC.**

**CONSOLIDATED BALANCE SHEETS**

June 30, 2014 and December 31, 2013

	June 30, 2014 (unaudited)	December 31, 2013
	\$	\$
<b>ASSETS</b>		
Current Assets		
Cash	791,425	943
Accounts receivable	697	697
Prepaid expenses and deposits	10,068	-
Advances receivable, related party	24,022	-
Loans receivable, related party	76,315	76,315
Marketable securities (Note 3)	210,000	225,000
Total current assets	1,112,527	302,955
Computer and Equipment, net of accumulated depreciation of \$13,450 and \$10,792 (Note 8)	266	1,516
Goodwill (Note 1)	66,274	66,274
Intangibles, net of accumulated amortization (Note 9)	169,708	206,709
<b>TOTAL ASSETS</b>	<b>1,348,775</b>	<b>577,454</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable	128,584	165,839
Accrued expenses, primarily management fees (Note 5)	1,565,640	1,336,904
Advances from related parties (Note 5)	191,791	191,344
Management bonuses	300,000	300,000

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Notes payable to stockholders (Note 6)	2,086,186	2,102,186
<b>Total current liabilities and total liabilities</b>	<b>4,272,201</b>	<b>4,096,273</b>
<b>Stockholders' Deficit</b>		
Series A Preferred stock, \$0.001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding at June 30, 2014 and December 31, 2013	1,000	1,000
Common stock, \$.001 par value, 850,000,000 shares authorized, 846,423,906 issued and outstanding as of June 30, 2014 and 770,523,906 at December 31, 2013	846,424	770,524
Common stock, Class A, \$.001 par value, 100,000,000 shares authorized, 0 issued and outstanding as of June 30, 2014 and December 31, 2013	-	-
Prepaid consulting	(3,216,806)	(3,553,296)
Additional paid-in capital	99,345,249	91,771,495
Accumulated deficit	(99,899,293)	(92,508,542)
<b>Total stockholders' deficit</b>	<b>(2,923,426)</b>	<b>(3,518,819)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>1,348,775</b>	<b>577,454</b>

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

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**CANNABIS SCIENCE, INC.**

**STATEMENTS OF OPERATIONS**

**FOR THE THREE AND SIX MONTHS ENDED**

**June 30, 2014 AND 2013**

**(UNAUDITED)**

	For the three months ended June 30,		For the six months ended June 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
<b>Revenue</b>	-	-	1,031	1,604
<b>Operating Expenses</b>				
Investor relations	-	3,387	-	3,601
Professional fees	27,870	46,606	42,345	71,586
Net loss on disposal of assets	-	-	-	8,896

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Net loss (gain) on settlement of liabilities	-	-	2,116,500	1,092,150
Depreciation and Amortization	16,483	21,143	38,251	64,101
General and administrative	1,190,336	533,839	4,248,727	1,294,462
Total operating expenses	1,234,689	604,975	6,445,823	2,534,796
Net Operating Profit (Loss)	(1,234,689)	(604,975)	(6,444,792)	(2,533,192)
Other income (expense)				
Interest income, net	-	-	-	-
Interest expense, net	(5)	(480)	(65)	(757)
Debt refinancing costs	-	-	(833,000)	-
Gain on sale of JV assets	-	-	-	262,250
Gain on derecognized liabilities	-	-	-	37,458
Warrant expense	-	-	(97,894)	-
Unrealized gain (loss) on marketable securities	(329,250)	(322,500)	(15,000)	(472,250)
Total other income (expenses)	(329,255)	(322,980)	(945,959)	(173,299)
<b>Net Loss</b>	<b>(1,563,943)</b>	<b>(927,955)</b>	<b>(7,390,751)</b>	<b>(2,706,491)</b>
Net loss per common share				
- Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)
Weighted average number of common shares outstanding	837,554,785	687,261,950	773,430,315	681,863,467

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

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**CANNABIS SCIENCE, INC.**

**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)**

**FOR THE PERIOD FROM December 31 2012 to June 30, 2014**

Series Additional

Common

Preferred

Paid-in

Prepaid

Accumulated

Shares

Par



\$

Shares

Par

\$

Capital

\$

Consulting

Deficit

\$

Totals

\$

Balance at December 31, 2012

663,790,573

663,791

666,666

667

86,604,888

(2,864,070

)

(86,574,241

)

(2,168,965

)

Common stock issued for services

57,900,000

57,900

-

-

2,314,621

(1,362,891

)

-

1,009,630

Common stock issued for debt

48,000,000

48,000

-

-

2,328,150

-

-

2,376,150

Common stock issued for private placement

833,333

833

-

-

24,167

-

-

25,000

Preferred stock issued for services

-

-

333,334

333

499,669

(500,002

)

-

-

Amortization of shares issued for services

-

-

-

-

-

1,173,667

-

1,173,667

Net loss for the period

-

-

-

-

-

-

(5,934,301

)

(5,934,301

)

Balance at December 31, 2013

770,523,906

770,524

1,000,000

1,000

91,771,495



(3,553,296  
)

(92,508,542  
)

(3,518,819  
)

Common stock issued for services

37,400,000

37,400

-

-

3,535,360

(558,940

)

-

3,013,820

Common stock issued for debt

29,500,000

29,500

-

-

2,116,500

-

-

2,146,000

Common stock issued for debt extension

5,000,000

5,000

-

-

828,000

833,000

Common stock issued for private placement

4,000,000

4,000

-

-

996,000

-

-

1,000,000

Amortization of shares issued for services

-

-

-

-

-

895,430

-

895,430

Warrant expense

-

-

-

-

97,894

Net loss for the period

(7,390,751

)

(7,390,751

)

Balance at June 30, 2014

846,423,906

846,424

1,000,000

1,000

99,345,249

(3,216,806

)



(99,899,293

)

(2,923,426

)

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

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**CANNABIS SCIENCE, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED**

**JUNE 30, 2014 AND 2013**

(Unaudited)

	June 30, 2014	June 30, 2013
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	(7,390,751)	(2,706,491)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,250	3,117
Amortization	37,001	62,543
Debt issued for payment of expenses	-	-
Stock issued for services	3,909,250	1,035,908
Stock issued for debt extension	833,000	-

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Gain on joint ventures	-	(262,250)
Loss on marketable securities	15,000	472,250
Loss on settlement of debt	2,116,500	1,092,150
Loss on joint ventures	-	8,896
Warrant expense	97,894	-
Changes in operating assets and liabilities:		
Accounts receivable	-	-
Accounts receivable, related parties	-	25,000
Prepaid expenses and deposits	(10,068)	110
Accounts payable	(23,755)	58,899
Accrued expenses, including management fees	228,736	(53,856)
NET CASH USED IN OPERATING ACTIVITIES	(185,943)	(263,724)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans receivable, related parties	-	10,663
Advances receivable, related parties	(24,022)	(14,155)
Purchase of property, plant & equipment	-	-
CASH FLOWS USED IN INVESTING ACTIVITIES	(24,022)	(3,492)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from advances from officer	447	-
Proceeds from notes payable-stockholders	-	148,000
Proceeds on advances from related parties	-	(1,444)
Advances from related parties	-	72,452
Proceeds from sale of common stock	1,000,000	25,000
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	1,000,447	244,008
NET INCREASE (DECREASE) IN CASH	790,482	(23,208)
CASH, BEGINNING OF PERIOD	943	23,560
CASH, END OF PERIOD	791,425	352
SUPPLEMENTAL CASH FLOW INFORMATION:		
Common stock issued for services	3,572,760	1,371,049
Common stock issued for settlement of debt	2,146,000	1,105,650
Debt converted into common stock	29,500	13,500
Common stock issued for debt extension	833,000	-
Warrant extension expense	97,894	-
Accounts payable paid through note payable, stockholder	13,500	163,332
Accounts payable paid by related parties	-	15,725
Intangibles, CCI allocated to goodwill	-	22,000
Intangibles, CCI allocated to intangibles	-	125,000
Accounts and advances receivable, related party, repaid by payments to advances from related party	-	50,000

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

CANNABIS SCIENCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Organization and General Description of Business*

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. 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. On March 25, 2008 the Company changed its name to Gulf Onshore, Inc. On April 7, 2009, the Company changed its name to Cannabis Science, Inc., and obtained a new CUSIP number.

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

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 formed two operating subsidiaries Cannabis Science BV and Cannabis Science International Holding BV in The Netherlands on May 10<sup>th</sup> and May 6<sup>th</sup>, 2013, respectively, to pursue business opportunities in Europe and worldwide. There are currently no active operations in the subsidiaries.

On November 15, 2013, the Company submitted a patent application N2010968 in Europe entitled "Composition for the Treatment of Neurobehavioral Disorders." The subject of the patent is development of cannabinoid-based formulations to treat a variety of neurobehavioral disorders, such as attention deficit hyperactivity disorder (ADHD), anxiety, and sleep disorders.

*B. Basis of Presentation*

These consolidated financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in U.S. dollars. The Company's fiscal year end is December 31.



## Interim Financial Reporting

While the information presented in the accompanying interim consolidated financial statements is unaudited, it includes all adjustments, which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented in accordance with generally accepted accounting principles in the United States of America ("GAAP"). These interim financial statements follow the same accounting policies and methods of application as used in the December 31, 2013 audited financial statements of Cannabis Science, Inc. (the Company). All adjustments are of a normal, recurring nature. Interim financial statements and the notes thereto do not contain all of the disclosures normally found in year-end audited financial statements and these Notes to Financial Statements are abbreviated and contain only certain disclosures related to the three month periods ended June 30, 2014 and 2013. It is suggested that these interim financial statements be read in conjunction with the Company's audited financial statements and related notes for the year ended December 31, 2013 included in our Form 10-K/A, filed with the Securities Exchange Commission on April 23, 2014. Operating results for the six months ended June 30, 2014 are not necessarily indicative of the results that can be expected for the year ending December 31, 2014.

The operating results of GGECO University, Inc. (GGECO), acquired on February 9, 2012, for the period February 10, 2012 through December 31, 2013 were consolidated with the consolidated financial statements of the Company for the year ended December 31, 2013. The s-type corporation of GGECO was dissolved in 2012 and all operations combined into the Company's. An independent valuation firm determined the intangibles acquired in GGECO to be \$192,119 consisting of \$150,000 for educational materials, \$20,000 for the trade name, and \$22,119 for the workforce. The total purchase price of \$450,132, including acquired net liabilities, audit and valuation costs was recorded. A total of \$44,274 in unimpaired goodwill remains at June 30, 2014.

The operating results of Cannabis Consulting, Inc. (CCI), acquired on March 21, 2012, for the period March 21, 2012 through December 31, 2013 and January 1, 2014 through June 30, 2014 were consolidated with the consolidated financial statements of the Company for the three months ended June 30, 2014. The s-type corporation of CCI was dissolved in 2012 and all operations combined into the Company's. The Company has allocated \$125,000 of the purchase price to intangibles based on an internal valuation in addition to \$22,000 of goodwill. No impairment in the fair market value of CCI was determined at June 30, 2014.

On May 6, 2013, the Company formed Cannabis Science International Holdings B.V. and on May 10, 2013, the Company formed Cannabis Science B.V. for the purpose of wholly-owned operating subsidiaries for the Company's European and world-wide operations. No business or operating activities have commenced in the subsidiaries as of June 30, 2014.

### *C. Use of Estimates*

The preparation of consolidated 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 the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined.

*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 six months ended June 30, 2014 and 2013, 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. Long-Lived Assets & Impairment on Oil Lease Investments*

Under ASC Topic 360, Property, Plant, and Equipment, the Company is required to periodically evaluate the carrying value of long-lived assets to be held and used. ASC Topic 360 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal.

*G. Inventory*

Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials related to the purchase and production of inventories. We regularly review inventory quantities on hand, future purchase commitments with our suppliers, and the estimated utility of our inventory. If our review indicates a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to cost of revenue.

*H. Fair Value Measurements*

Under ASC Topic 820, the Company discloses the estimated fair values of financial instruments. The carrying amounts reported in the balance sheet for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

In accordance with the reporting requirements of ASC Topic 825, Financial Instruments, the Company calculates the fair value of its assets and liabilities which qualify as financial instruments under this standard and includes this additional information in the notes to the consolidated financial statements when the fair value is different than the carrying value of those financial instruments (see Note 4). The estimated fair value of other current assets and current liabilities approximate their carrying amounts due to the relatively short maturity of these instruments. None of these instruments are held for trading purposes.

### *I. Goodwill and Intangible Assets*

Under ASC Topic 350 *Intangibles-Goodwill and Other*, goodwill is not amortized to expense, but rather that it is assessed or tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Company did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of October 1, 2013. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight-line method over estimated useful lives of five years.

The Company tests the carrying value of goodwill and indefinite life intangible assets for impairment at least once a year and more frequently if an event or circumstance indicates the asset may be impaired. An impairment loss is recognized if the amount of the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less selling expenses or its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units).

The Company has adopted ASU update number 2012-02 *Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment* whereby the Company will first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the indefinite-lived intangible asset is impaired, then we are not required to take further action. If the Company concludes otherwise, then we will determine the fair value of the indefinite-lived intangible asset and perform the required quantitative impairment test by comparing the fair value with the carrying amount.

The Company did not record an impairment loss on goodwill for the six months ended June 30, 2014 and did not record an impairment loss on goodwill for 2013 that was included in operating expenses and resulting net operating loss.

### *J. Research and Development Expenses*

Under ASC Topic 730 *Research and Development*, costs are expensed as incurred. These expenses include the costs of our proprietary R&D efforts, as well as costs incurred in connection with certain licensing arrangements. Before a compound receives regulatory approval, we record upfront and milestone payments made by us to third parties under licensing arrangements as expense. Upfront payments are recorded when incurred, and milestone payments are recorded when the specific milestone has been achieved. Once a compound receives regulatory approval, any milestone payments will be recorded as Identifiable intangible assets, less accumulated amortization and, unless the asset is determined to have an indefinite life, amortization of the payments will be on a straight-line basis over the remaining agreement term or the expected product life cycle, whichever is shorter.

### *K. Income Taxes*

Under ASC Topic 740, *Income Taxes*, 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.

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Unfiled Federal Tax Returns

In February 2009, the Company filed appropriate federal tax returns for the years ending December 31, 2003 through 2007 and may be subject to failure to file penalties. For the years ending December 31, 2008 through December 31, 2013, the Company has not filed any federal tax returns. The Company estimates that the amount of penalties, if any, will not have a material effect on the results of operations, cash flows or financial position. No provisions have been made in the financial statements for such penalties, if any.

The Company is working with its accountants to prepare and file overdue federal tax returns for 2008 through 2013, which are anticipated to be completed and filed by the end of fiscal 2014.

*L. Marketable Securities*

Under ASC Topic 210; Rule 5-02.2, *Marketable Securities*, the Company is required to measure all marketable securities at their carrying value while recognizing unrealized gains and losses as of the reporting date.

*M. Stock-Based Compensation*

Under ASC Topic 718, *Compensation-Stock Compensation*, the Company is required to measure all employee share-based payments, including grants of employee stock options, using a fair-value-based method and the recording of such expense in the statements of operations. The Company has adopted ASC Topic 718 (SFAS 123R) as of January 1, 2006 and recognizes stock-based compensation expense using the modified prospective method.

*N. Revenue Recognition*

Revenue is recognized at the time the educational materials or online seminars are provided and billed to the customer and collection of such fee is reasonably assured. License fees and joint-venture profit sharing when evidenced by executed agreements, and other fees are recognized when earned and collection is reasonably assured.

*O. Recent Accounting Pronouncements*

During the six months ended June 30, 2014 and through August 14, 2014, there were several new accounting pronouncements issued by the FASB. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's financial statements.



*P. Reclassifications*

For comparative purposes, certain prior period consolidated financial statements have been reclassified to conform with report classifications of the current year.

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## 2. GOING CONCERN

The accompanying consolidated 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 \$99,899,293 and had a stockholders' deficit of \$2,923,426 at June 30, 2014.

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 June 30, 2014, the Company had insufficient operating revenues and cash flow to meet its financial obligations. There can be no assurance that management will be successful in implementing its plans. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company raised \$1,000,000 in the six months ended June 30, 2014. Notwithstanding, we anticipate that we will have to raise additional capital to fund research and development and 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 that has resulted in substantial dilution to existing investors.

## **3. MARKETABLE SECURITIES**

See Note 5 for transaction details on 7,500,000 common shares in OmniCanna Health Solutions, Inc. (formerly Endocan Corporation; X-Change Corporation) (OTCQB: ENDO) with a fair market value of \$210,000 held by the Company at June 30, 2014.

## **4. FAIR VALUE MEASUREMENTS AND DISCLOSURES**

ASC Topic 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

(Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities that the Company can access at the measurement date.

Level 2

Inputs to the valuation methodology are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3

Inputs to the valuation methodology are unobservable inputs for the asset or liability.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for the Company's liabilities measured at fair value. There have been no changes in the methodologies used at June 30, 2014.

*Investment in marketable securities:* Trading securities valued at the closing price of ENDO shares held by the Company at period end.

*Intangibles from GGECO and CCI acquisitions:* Valued at replacement cost. The replacement cost is determined as the cost of replacing the asset with a modern unit of the near equivalent utility.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following tables set forth by level, within the fair value hierarchy, the Company's liabilities at fair value as of June 30, 2014.

<u>December 31, 2013</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment in trading securities	\$ 225,000	\$ -	\$ -	225,000

Intangibles from acquisitions, GGECO and CCI net of accumulated amortization	-	-	237,480	237,480
Total assets as of December 31, 2013	\$ 225,000\$	-\$	237,480\$	462,480

# **June 30, 2014**

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment in trading securities	\$ 210,000\$	-\$	-\$	210,000
Intangibles from GGECO and CCI acquisitions, net of accumulated amortization	-	-	227,852	227,852
Total assets as of June 30, 2014	\$ 210,000\$	-\$	227,852\$	437,852

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## **5. RELATED PARTY TRANSACTIONS**

At June 30, 2014, a total of \$191,791 (December 31, 2013: \$191,344) in loans payable was due to Bogat Family Trust, Raymond Dabney the Company's Managing Consultant as trustee, and \$0 to Raymond Dabney (December 31, 2013: \$6,166). The loan amounts due are non-interest bearing, unsecured and have no specified terms of repayment. Raymond Dabney also performs management services to the Company under a Management Consulting Agreement signed on February 9, 2012.

At June 30, 2014, the Company held 7,500,000 common shares in the OmniCanna Health Solutions, Inc. (formerly Endocan Corporation; X-Change Corporation) ( OHS ) representing approximately 8.6% of the issued and outstanding

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shares of OHS, of which 5,000,000 common shares were acquired at a fair market value of \$150,000 or \$0.03 on December 12, 2012 and 2,500,000 common shares were acquired at a fair market value of \$262,250 or \$0.1049 per share on February 8, 2013. The 5,000,000 common shares were received as consideration for the sale of its rights and interest in the dupetit Natural Products GmbH joint-venture operating agreement to OHS under an Asset Purchase Agreement and the 2,500,000 common shares were received as consideration for the sale of its rights and interest in the Maliseet joint-venture operating agreement to OHS under an Asset Purchase Agreement. The value of the shares at June 30, 2014 was determined to be \$0.0719 per share or \$539,250 with the Company recording an unrealized gain of \$314,250 for the three months ended June 30, 2014. Dr. Dorothy Bray, CEO and director is also President and director of OHS, Robert Kane, CFO and director is also the CFO and a director of OHS. Chad S. Johnson, Esq., COO, general counsel and a director is also a director and general counsel for OHS.

For the six months ended June 30, 2014, the following related party management fees and stock-based compensation ( SBC ) were recorded:

Related Party	Position	Management Fees	SBC	TOTAL
Dr. Dorothy Bray*	CEO	\$ 30,000	\$ 906,699	\$ 936,699
Robert Kane	CFO	15,000	380,117	395,117
Chad S. Johnson, Esq.	COO and General Counsel	30,000	848,100	878,100
Mario Lap*	Director	15,000	893,970	908,970
Raymond Dabney*	Managing Consultant	-	163,125	163,125
		\$ 90,000	\$ 3,192,011	\$ 3,282,011

\*Including compensation to companies beneficially owned by the related parties.

See Note 7 for details of stock issuances to director and officers for services rendered.

During the six months ended June 30, 2014, a stockholder of the Company, Intrinsic Venture Corp., loaned the following amounts to the Company that were secured by promissory notes, as follows:

<u>Issue Date</u>	<u>Note Amount</u>
February 7, 2014 (non-cash)	\$13,500

New loans from Intrinsic Venture Corp. included in notes payable to stockholders were \$13,500 during the six months ended June 30, 2014. Notes payable to Intrinsic Venture Corp. totaled \$1,815,267 at June 30, 2014 and \$1,831,969 at December 31, 2013.

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## **6. NOTES PAYABLE**

As at June 30, 2014, a total of \$2,086,186 (December 31, 2013: \$2,102,186) of notes payable are due to stockholders that are non-interest bearing and are due 12 months from the date of issue and loan origination beginning on July 5, 2014 through February 7, 2015. A stockholder, to whom \$1,815,267 (December 31, 2013: \$1,811,767) in promissory notes are due, also performs business and accounting services for the Company on a month-to-month basis. A total of \$100,717 (December 31, 2013: \$120,217) is due to a stockholder under promissory notes that are non-interest bearing and are due 12 months from the date of issue and loan origination beginning on July 3 through December 31, 2014.

On June 30, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates by 12 months on all promissory notes including those becoming due during fiscal 2014. The Company agreed to issue 5,000,000 Rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes.

## **7. EQUITY TRANSACTIONS**

The Company is authorized to issue 850,000,000 shares of common stock with a par value of \$0.001 per share. These shares have full voting rights. There were 846,423,906 shares issued and outstanding as of June 30, 2014.

The Company is also authorized to issue 100,000,000 shares of common stock, Class A with a par value of \$0.001 per share. These shares have 10 votes per share. There were 0 shares issued and outstanding as of June 30, 2014.

The Company is also authorized to issue 1,000,000 shares of Series A preferred stock, with a par value of \$0.001 per share. These shares have full voting rights of 1,000 votes per share. There were 1,000,000 shares issued and outstanding as of June 30, 2014.

On February 9, 2012, the Company established a 2012 Equity Compensation Plan that authorizes the Company to issue up to 50,000,000 common shares to staff or consultants for services to or on behalf of the Company. The Company filed a Registration Statement Form S-8 with the U.S. Securities and Exchange Commission on February 14, 2012, file no. 333-179501, to register the shares covered under the plan. As of June 30, 2014, the Company has issued 48,250,000 common shares compensation under the plan.

On April 28, 2014, the Company filed a Form S-8 (file no. 333-195510) registering 6,500,000 common shares under a 2014 Stock Compensation Plan.

During the six months ended June 30, 2014, the Company issued the following common stock:

On January 3, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$590,000, assigned from the stockholder notes payable originating on May 17, 2013.

On January 6, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$681,000, assigned from the stockholder notes payable originating on January 30, 2012.

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On January 7, 2014, the Company issued 9,500,000 common shares for settlement of \$9,500 of stockholder debt, for a loss on settlement of \$845,500, assigned from the stockholder notes payable originating on May 17, 2013.

On January 15, 2014, the Company issued 2,000,000 S-8 registered free trading shares of common stock with a fair market value of \$192,400 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 5,500,000 Rule 144 restricted shares of common stock with a fair market value of \$529,100 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 2,500,000 Rule 144 restricted shares of common stock with a fair market value of \$240,500 or \$0.0962 per share to Robert Kane, CFO as a bonus under prior management agreement.

On January 24, 2014, the Company issued 5,000,000 S-8 registered free-trading shares of common stock to a marketing consultant for services rendered under a December 18, 2013 consulting agreement. The fair market value of the shares was \$0.0312 per share or \$156,000.

On February 13, 2014, the Company entered into a partnership agreement with Michigan Green Technologies, LLC. Under the agreement, the Company participates in 20% of all net profit of the operating entity. In addition, the

Company is working with its partner to active lobbying for the legalization of hemp and cannabis in Michigan which will lead to additional business opportunities for the Company through its partnership.

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively "Offered Units"). Gross proceeds of \$1,000,000 under the private placement offering were received by the Company. The weighted-average fair value of warrants and related warrant expense was estimated to be \$97,894 for the six months ended June 30, 2014 using the Black-Scholes option valuation model.

On April 26, 2014, the Company issued 1,300,000 S-8 registered free-trading shares of common stock with a fair market value of \$132,600 or \$0.102 per share to a consultant for services rendered under a 6-month consulting agreement.

On April 30, 2014, the Company issued 1,500,000 S-8 registered free-trading shares of common stock with a fair market value of \$126,600 or \$0.0844 per share to each of Dorothy Bray, Chad S. Johnson, Robert Kane, and Mario Lap directors and officers of the Company for bonuses under prior management agreements.

On May 20, 2014, the Company entered into a one-year Scientific Advisor Consulting Agreement with Robert Melamede, Ph.D. Under the Agreement, Dr. Melamede will be compensated 250,000 Rule 144 restricted common shares with a fair market value of \$17,500. In addition, he will be paid \$25,000 owed for accrued management fees within 30 days and issued 6,967,085 Rule 144 restricted common shares for settlement of \$387,696 in accrued management fees and \$100,000 in bonuses.

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On May 20, 2014, Robert Melamede, Ph.D. resigned as Director, Chairman of the Board of Directors, President, and director and officer positions in the Company's subsidiaries. Dr. Dorothy Bray assumed the role of interim President and was formally appointed as President and Chairperson of the Board of Directors on May 31, 2014.

On May 20, 2014, Bogat Family Trust (Raymond Dabney, Trustee) ("Bogat") and Robert Melamede, Ph.D. (Melamede) entered into a Stock Purchase Agreement whereby Bogat purchased 500,000 Series A preferred shares from Melamede for par value of \$0.001 per share, or \$500. Upon completion of the transaction, Bogat owned 1,000,000 shares of Series A preferred stock representing all of the issued and outstanding Series A preferred shares giving Bogat approximately 57% cumulative voting control of the Company and 67% cumulative voting control as of August 12, 2014 when the Company filed an Amended Certificate of Designation for Series A preferred stock.



On June 30, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates by 12 months on all promissory notes including those becoming due during fiscal 2014. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes.

Stock Options:

The following options were issued to Robert Kane, CFO and Director for services rendered under a September 16, 2011 agreement:

- (i)  
the option to purchase 100,000 common shares at ten cents (\$0.10) per share;
- (ii)  
the option to purchase 100,000 common shares at ten cents (\$0.20) per share;
- (iii)  
the option to purchase 500,000 common shares at ten cents (\$0.35) per share; and
- (iv)  
the option to purchase 1,000,000 common shares at ten cents (\$0.50) per share.

A summary of the status of the Company's option grants as of June 30, 2014 and the changes during the period then ended is presented below:

	Shares	Weighted-Average Exercise Price
Outstanding December 31, 2013	1,700,000	\$ 0.41
Granted		
Exercised		
Expired		
Outstanding June 30, 2014	1,700,000	\$ 0.41

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Options exercisable at June  
30, 2014 1,700,000 \$ 0.41

These options expire on the date of termination of the management agreement and services thereunder with Robert Kane. The weighted average fair value at date of grant for options during three months ended June 30, 2014 was estimated using the Black-Scholes option valuation model with the following:

Average expected life in years	2
Average risk-free interest rate	2.00%
Average volatility	75%
Dividend yield	0%

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## **8. EQUIPMENT**

		Accumulated	Net Book Value	Net Book Value
	Cost	Depreciation	June 30, 2014	December 31, 2013
Equipment	\$ 3,000	\$ 3,000	\$ -	\$ -
Software	5,000	4,734	266	1,516
Computers	5,716	5,716	-	-
	<u>\$ 13,716</u>	<u>\$ 13,450</u>	<u>\$ 266</u>	<u>\$ 1,516</u>

All equipment is 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, 2 years for software, and 5 years for equipment and laboratory equipment.

## **9. INTANGIBLE ASSETS**

	<u>June 30, 2014</u>	<u>December 31, 2013</u>
Intellectual assets, primarily intellectual property	\$ 445,299	\$ 445,299
Less accumulated amortization	<u>(275,591)</u>	<u>(238,590)</u>
	<u>\$ 169,708</u>	<u>\$ 206,709</u>

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).

#### **10. SUBSEQUENT EVENTS**

On July 3, 2014, the Company repaid \$250,000 in promissory notes due to Intrinsic Capital Corp, including notes assigned from another stockholder.

On August 6, 2014, the Company On August 6, 2014, Cannabis Science, Inc. (the Company ) entered into a LOI with John Dalaly regarding Michigan Green Technologies ( MGT ) which sets out the basic terms whereby the Company would acquire an additional 30.1% equity stake in MGT. This additional equity position would increase the Company s holdings of MGT to 50.1%. As consideration for the additional 30.1% equity in MGT, the Company shall do the following:

- (a) Issue 5 million S-8 shares to John Dalaly under a new 10 year services agreement;
- (b) Issue 5 million shares to Dina Dalaly under a new 10 year services agreement;
- (c) Issue 5 million shares to Katrina Dalaly under a new 10 year services agreement; and
- (d) Issue 5 million shares to Christ Gorges under a new 10 year services agreement.

The fair market value of the shares issued to the principals of MGT is \$1,500,000, or \$0.075 per share.

Change in rights and preferences of Series A preferred stock:

On August 12, 2014, the Company filed an amended Certificate of Designation for Series A preferred stock with the Nevada Secretary of State to change the rights and preference of the respective stock. Pursuant to the amended Certificate of Designation, Series A preferred stockholders have 67% voting control over the company.

Increase in authorized share capital:

On August 13, 2014, the Board of Directors of the Company approved amending the Articles of Incorporation to increase the authorized common stock from 850,000,000 to 1,500,000,000 on a Certificate of Amendment to be filed with the Nevada Secretary of State once the Schedule 14C filed with the SEC becomes definitive.

## 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. 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. On March 25, 2008 the Company changed its name to Gulf Onshore, Inc. On April 7, 2009, the Company changed its name to Cannabis Science, Inc.

Cannabis Science, Inc. is at the forefront of medical cannabis 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., takes advantage of its unique understanding of metabolic processes to provide novel treatment approaches to a number of illnesses for which current treatments and understanding remain unsatisfactory. The Company works with leading experts in drug development, medicinal characterization, and clinical research to develop, produce, and commercialize novel therapeutic approaches for the treatment for illnesses caused by infections as well as for age-related illness. Our initial focus is on skin cancers and neurological conditions.

Cannabis Science, Inc. takes advantage of its unique understanding of metabolic processes to provide innovative treatment options for unmet medical needs.

Cannabis use has an extensive history dating back thousands of years, and currently there are thousands of peer-reviewed scientific publications that document the underlying biochemical pathways that cannabinoids modulate.

At Cannabis Science, we use an inquiring approach to discover and develop novel cannabinoid-based therapies to improve patients' lives. From the initiation, our founders have been committed to fostering and maintaining a bold, pioneering spirit fostering the true nature of innovation from which cutting edge ideas flourish and translate into evidence-based solutions.

We are dedicated to working closely with local, national and international regulatory agencies to provide access to high quality, first class cannabinoid pharmaceuticals to those critically in need of new treatments for life threatening and debilitating conditions. Cannabis Science's clinical trial material comes from the cultivation and production facilities that are GMP compliant, surpassing high quality standard industrial and food processing requirements.

The Company works with leading experts in drug development, medicinal characterization, and clinical research to develop, produce, and commercialize novel therapeutic approaches for the treatment of multiple critical ailments from cancer and infections to age-related illnesses.

Our products, broadly described, are medical cannabinoid formulations developed from one or more of the cannabinoid compounds found in the cannabis plant. Our immediate focus is to treat one of the most important diseases in the world, cancer.

CS-S/BCC1 is in preparation to enter phase I clinical trials within one to two year. This product is formulated for topical administration to be tested in phase I study, with an indication for skin cancer.

CS-TAT11 is in preclinical development with the indication for infectious disease. Consistent with data published in March by researchers at the Mount Sinai School of Medicine found that cannabinoids inhibit TAT induced migration to TAT via cannabinoid 2 receptors (CB2) which has potential applications in HIV and other infectious diseases.





In November 2013, Cannabis Science submitted patent application N2010968 in Europe entitled "Composition for the Treatment of Neurobehavioral Disorders." The subject of the patent is development of cannabinoid-based formulations to treat a variety of neurobehavioral disorders, such as attention deficit hyperactivity disorder (ADHD) and anxiety. The first formulation in the series of neurobehavioral disorder-targeted products is the pre-clinical development and use of the invention in food products through a licensing agreement with partner company, OmniCanna Health Solutions, Inc. And Cannabis Science will move forward at the same time with pharmaceutical grade development.

Cannabis plants have extensive history of medical and agricultural use dating back thousands of years.

To date hundreds of natural constituents covering several chemical classes have been isolated and identified from the Cannabis plant.

Some key phytocannabinoids are:

.

tetrahydrocannabinol (THC)

.

cannabidiol (CBD)

.

cannabigerol (CBG)

.

cannabichromene (CBC)

.

cannabinol (CBN)

These cannabinoids belong to the chemical class of terpenophenolics, of which 85 have been uniquely identified in cannabis, including the most psychoactive cannabinoid, THC.

Some applications of cannabinoids have been well established in peer-reviewed literature such as for alleviating nausea and stimulating the appetite for people with AIDS and cancer. Other well-known uses include easing chronic pain and reducing muscle spasms associated with multiple sclerosis and spinal cord injuries.

The pharmacology of THC has been widely studied, while many other identified cannabinoids are still poorly characterized pharmacologically and biologically, with new activities for cannabinoids consistently being discovered.

Cannabis Science is developing novel cannabis based approaches to treat the world's most deadly illnesses. We learn from patients about the healing properties of cannabis medicines. Our immediate focus is the development of cutting edge cancer treatments.

The Company's future endeavors include infectious illnesses, neurobehavioral disorders including attention deficit disorder, post-traumatic stress disorder; and an application of the anti-inflammatory activities of cannabis in the management of age-related illnesses.

The endocannabinoid system possessed by all vertebrates regulates all body systems and maintains homeostasis. As such, the mechanisms of phytocannabinoids' biological impact are multidimensional.

While concentrating on our core activities of discovering and developing treatments that will make a meaningful difference in patients' lives, we remain mindful that we have other responsibilities to the clinicians who utilize our drugs, health authorities around the world, our shareholders, our employees, and the communities in which we live and work. We continually strive to improve our corporate responsibility standards and activities, implementing comprehensive ethical standards and undertaking patient and community progressive initiatives.

These principles reflect the mission of Cannabis Science to provide innovative therapeutics for unmet medical needs.

As the industry leader, Cannabis Science consults and leads other emerging businesses that Cannabis Science believes has a preferred business model, one which will mature into a key business model in the future. Our consulting is on the entire "seed to sale" process with a focus on bio-pharmaceutical development. Cannabis Science is one of the longest standing companies in the cannabis business. We feel that the correct way is to look at the industry from a bio-pharmaceutical standpoint, in a manner that allows cannabinoid-based products to modulate the endocannabinoid system to treat multiple conditions.

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](http://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 consolidated 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, 2010, 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](http://www.cannabisscience.com) reflecting its new name.

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

The Company formed two operating subsidiaries Cannabis Science BV and Cannabis Science International Holding BV in The Netherlands on May 10<sup>th</sup> and May 6<sup>th</sup>, 2013, respectively, to pursue business opportunities in Europe and worldwide. There are currently no active operations in the subsidiaries.

### Liquidity

The Company has a working capital deficit of \$3,159,674 as of June 30, 2014 compared to a working capital deficit of \$3,793,318 for the year ended December 31, 2013. There are insufficient liquid assets to meet current liabilities or sustain operations through 2014 and beyond and the Company must raise additional capital to cover the working capital deficit. Management is working on plans to raise additional capital through private placements and lending facilities. The Company currently is relying on existing cash and loans from stockholders to meet its obligations and sustain operations.

The Company has promissory note payment commitments of \$2,086,186 due to stockholders over the next 12 months beginning on July 3 through December 31, 2014.

### Contractual Obligations

The Company has no contractual obligations.

### Capital Resources

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively "Offered Units"). Gross proceeds of \$1,000,000 were received by the Company under the offering.

The Company has additional capital resource requirements for personnel, supplies, laboratory and scientific equipment of approximately \$500,000 over the next 12 months. These capital disbursements are dependent on management's successful raising of capital through private placements and/or lending facilities.

The Company is currently in good short-term financial standing. We anticipate that we may only generate limited revenues in the near future and we will not have enough positive internal operating cash flow until we can generate substantial revenues, which may take the next two years to fully realize. There is no assurance we will achieve profitable operations. We have historically financed our operations primarily by cash flows generated from the sale of our equity securities and through cash infusions from officers and outside investors in exchange for debt and/or

common stock.

### Results of Operations

#### For the three months ended June 30, 2014:

The Company had no revenues for the three months ended June 30, 2014 and 2013. The Company is working on several business development projects to generate revenues, including: updating course materials and launching an iPad application for new students/clients in GGECO, creating new service packages for CCI, launching a hemp product line, and acquiring new assets that may generate revenues. There can be no assurance that these will be successful in generating revenues in 2014.

General and administrative expenses increased by \$656,497 to \$1,190,336 for the three months ended June 30, 2014 compared to \$533,839 for the three months ended June 30, 2013. This increase is due to increased stock compensation expense pursuant to management consulting and bonus agreements.

For the six months ended June 30, 2014:

The Company had revenues of \$1,031 for the six month months ended June 30, 2014 compared to \$1,604 for the prior year period ended June 30, 2013.

Net loss on settlement of debt increased by \$1,024,350 to \$2,116,500 for the six months ended June 30, 2014 compared to \$1,092,150 for the six months ended June 30, 2013. This increase is due to the higher share price of the Company's stock and relative loss related to settling debt at a lower share price.

General and administrative expenses increased by \$2,954,265 to \$4,248,727 for the six months ended June 30, 2014 compared to \$1,294,462 for the six months ended June 30, 2013. This increase is due to increased stock compensation expense pursuant to management consulting and bonus agreements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **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 last fiscal quarter 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**

None.

### **ITEM 1A. RISK FACTORS**

Not applicable.

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

During the six months ended June 30, 2014, we have issued securities using exemptions available under the Securities Act of 1933:

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

On January 3, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$590,000, assigned from the stockholder notes payable originating on May 17, 2013.

On January 6, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$681,000, assigned from the stockholder notes payable originating on January 30, 2012.

On January 7, 2014, the Company issued 9,500,000 common shares for settlement of \$9,500 of stockholder debt, for a loss on settlement of \$845,500, assigned from the stockholder notes payable originating on May 17, 2013.



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On January 15, 2014, the Company issued 2,000,000 S-8 registered free trading shares of common stock with a fair market value of \$192,400 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 5,500,000 Rule 144 restricted shares of common stock with a fair market value of \$529,100 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 2,500,000 Rule 144 restricted shares of common stock with a fair market value of \$240,500 or \$0.0962 per share to Robert Kane, CFO as a bonus under prior management agreement.

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively "Offered Units"). Gross proceeds of \$1,000,000 under the private placement offering were received by the Company.

On April 26, 2014, the Company issued 1,300,000 S-8 registered free-trading shares of common stock with a fair market value of \$132,600 or \$0.102 per share to a consultant for services rendered under a 6-month consulting agreement.

On April 28, 2014, the Company filed a Form S-8 (file no. 333-195510) registering 6,500,000 common shares under a 2014 Stock Compensation Plan.

On April 30, 2014, the Company issued 1,500,000 S-8 registered free-trading shares of common stock with a fair market value of \$126,600 or \$0.0844 per share to each of Dorothy Bray, Chad S. Johnson, Robert Kane, and Mario Lap directors and officers of the Company for bonuses under prior management agreements.

On May 20, 2014, the Company entered into a one-year Scientific Advisor Consulting Agreement with Robert Melamede, Ph.D. Under the Agreement, Dr. Melamede will be compensated 250,000 Rule 144 restricted common shares with a fair market value of \$17,500. In addition, he will be paid \$25,000 owed for accrued management fees within 30 days and issued 6,967,085 Rule 144 restricted common shares for settlement of \$387,696 in accrued management fees and \$100,000 in bonuses.

On May 20, 2014, Robert Melamede, Ph.D. resigned as Director, Chairman of the Board of Directors, President, and director and officer positions in the Company's subsidiaries. Dr. Dorothy Bray assumed the role of interim President and was formally appointed as President and Chairperson of the Board of Directors on May 31, 2014.

On May 20, 2014, Bogat Family Trust (Raymond Dabney, Trustee) ("Bogat") and Robert Melamede, Ph.D. (Melamede) entered into a Stock Purchase Agreement whereby Bogat purchased 500,000 Series A preferred shares from Melamede for par value of \$0.001 per share, or \$500. Upon completion of the transaction, Bogat owned 1,000,000 shares of Series A preferred stock representing all of the issued and outstanding Series A preferred shares giving Bogat approximately 57% cumulative voting control of the Company.

On June 30, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates by 12 months on all promissory notes including those becoming due during fiscal 2014. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions

on the aforementioned promissory notes.

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### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

### ITEM 5. OTHER INFORMATION

Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers:

On May 20, 2014, the Company entered into a one-year Scientific Advisor Consulting Agreement with Robert Melamede, Ph.D. Under the Agreement, Dr. Melamede will be compensated 250,000 Rule 144 restricted common shares with a fair market value of \$17,500. In addition, he will be paid \$25,000 owed for accrued management fees within 30 days and issued 6,967,085 Rule 144 restricted common shares for settlement of \$387,696 in accrued management fees and \$100,000 in bonuses.

On May 20, 2014, Robert Melamede, Ph.D. resigned as Director, Chairman of the Board of Directors, President, and director and officer positions in the Company's subsidiaries. Dr. Dorothy Bray was appointed as President and Chairperson of the Board of Directors. Dr. Melamede will continue as a key scientific advisor to the Company and retain the title Cannabis Science President Emeritus.

See Notes 5, 7, and 10 in regards to stock compensation for officers and directors.

Control Stockholder Transaction:

On May 20, 2014, Bogat Family Trust (Raymond Dabney, Trustee) ( Bogat ) and Robert Melamede, Ph.D. (Melamede) entered into a Stock Purchase Agreement whereby Bogat purchases 500,000 Series A preferred shares from Melamede for par value of \$0.001 per share, or \$500. Upon completion of the transaction, Bogat owned 1,000,000 shares of Series A preferred stock representing all of the issued and outstanding Series A preferred shares. As of the date of filing this Form 10-Q, Bogat has 67% cumulative voting control of the Company.

Change in rights and preferences of Series A preferred stock:

On August 12, 2014, the Company filed an amended Certificate of Designation for Series A preferred stock with the Nevada Secretary of State to change the rights and preference of the respective stock. Pursuant to the amended Certificate of Designation, Series A preferred stockholders have 67% voting control over the company.

Increase in authorized share capital:

On August 13, 2014, the Board of Directors of the Company approved amending the Articles of Incorporation to increase the authorized common stock from 850,000,000 to 1,500,000,000 on a Certificate of Amendment to be filed with the Nevada Secretary of State once the Schedule 14C filed with the SEC becomes definitive.

## ITEM 6. EXHIBITS

<b>Exhibit No.</b>	<b>Description</b>
4.1	Amended Certificate of Designation Series A preferred stock (1)
10.1	Management Agreement, filed herewith.
10.2	Management Agreement, filed herewith.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
EX-101.INS	XBRL Instance Document
EX-101.SCH	XBRL Taxonomy Extension Schema
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase

(1)

Filed as an exhibit to our Form 8-K, dated August 14, 2014

## 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.**

(REGISTRANT)

Date: August 18, 2014      */s/ Dr. Dorothy Bray*

Dr. Dorothy Bray  
President, Chief Executive Officer and Director

Date: August 18, 2014      */s/ Robert Kane*

Robert Kane  
Chief Financial Officer and Director