

CANNABIS SCIENCE, INC.
Form 10-Q
August 11, 2016

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, 2016

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
(State or other jurisdiction of incorporation or organization)

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

Edgar Filing: CANNABIS SCIENCE, INC. - Form 10-Q

19800 MacArthur Blvd., Suite 300, Irvine, California
(Address of principal executive offices)

92612
(Zip Code)

(888)263-0832

(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. ☒ 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). ☒ Yes ☐ No

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 issued and outstanding at June 30, 2016: 1,937,855,296

Number of common shares outstanding at July 28, 2016: 1,967,305,296

Number of Class A common shares outstanding at July 15, 2016: 0

-

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Period Ended June 30, 2016

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	2
Item 1. Consolidated Financial Statements	2
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	3
Item 3. Quantitative and Qualitative Disclosures about Market Risk	9
Item 4. Controls and Procedures	9
PART II OTHER INFORMATION	9
Item 1. Legal Proceedings	9
Item 1A. Risk Factors	9
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	9
Item 3. Defaults Upon Senior Securities	11
Item 4. Mine Safety Disclosures.	11
Item 5. Other Information	11
Item 6. Exhibits and Certifications	12

PART I FINANCIAL INFORMATION.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

	Page No.
Consolidated Balance Sheets as at June 30, 2016 and December 31, 2015	F-1
Consolidated Statements of Operations and Other Comprehensive Income (Loss) for three and six months ended June 30, 2016 and 2015	F-2
Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015	F-3
Consolidated Statements of Stockholders' Deficit for the six months ended June 30, 2016	F-4
Notes to Consolidated Financial Statements	F-5

CANNABIS SCIENCE, INC.**CONSOLIDATED BALANCE SHEETS**

June 30, 2016 and December 31, 2015

	June 30, 2016 (UNAUDITED)	December 31, 2015
	\$	\$
ASSETS		
Current Assets		
Cash	33,007	61,971
Other receivables	33,416	39,366
Loans receivable, related party	20,000	37,516
Inventory	95,238	19,311
Prepaid expenses and deposits	152,854	156,750
Total current assets	334,515	314,914
Property farming license (Note 7)	50,000	—
Deposits (Note 8)	1,152,850	971,500
Equity method investee (Note 9)	129,131	128,927
Goodwill (Note 10)	153,620	170,689
Intangibles, net of accumulated amortization (Note 10)	193,500	215,000
TOTAL ASSETS	2,013,616	1,801,030
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	840,833	680,215
Accrued expenses, primarily management fees (Note 4)	2,211,283	1,614,654
Advances from related parties (Note 4)	433,276	414,135
Management bonuses	300,000	300,000
Notes payable to stockholders (Note 5)	1,360,658	1,406,513
Total current liabilities and total liabilities	5,146,050	4,415,517
Stockholders' Deficit		
Series A Preferred stock, \$0.001 par value, 1,000,000 shares authorized, 1,000,000 shares issued and outstanding at June 30, 2016 and December 31, 2015	1,000	1,000
Common stock, \$.001 par value, 3,000,000,000 shares authorized, 1,937,855,296 issued and outstanding as of June 30, 2016 and 1,581,855,296 at December 31, 2015	1,937,856	1,581,856
Common stock, Class A, \$.001 par value, 100,000,000 shares authorized, 0 issued and outstanding as of June 30, 2016 and December 31, 2015	—	—
Prepaid consulting	(2,171,505)	(3,209,032)
Common Stock receivable	(1,539,810)	(381,500)

Edgar Filing: CANNABIS SCIENCE, INC. - Form 10-Q

Additional paid-in capital	132,263,773	127,942,191
Accumulated deficit	(133,016,422)	(128,017,132)
Cumulative exchange translation	(15,539)	(18,496)
Equity attributable to common shareholders	(2,540,647)	(2,101,113)
Non-Controlling interest	(591,787)	(513,374)
Total stockholders' deficit	(3,132,434)	(2,614,487)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	2,013,616	1,801,030

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

F-1

CANNABIS SCIENCE, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME / (LOSS)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016 and 2015
(UNAUDITED)**

	For the three months ended June 30,		For the six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
REVENUE	2,862		5,787	
Cost of Goods Sold	604		2,202	—
Gross Profit	2,258	—	3,585	—
Operating Expenses				
Investor relations	61,350	5,500	218,350	10,500
Professional Fees	113,427	578,668	195,117	603,708
Net loss on settlement of liabilities		1,360,000	588,645	3,718,076
Depreciation and Amortization	19,284	—	38,569	—
Research and Development	95,537	115,884	258,537	313,220
General and administrative	1,389,479	4,092,866	3,781,168	5,743,958
Total operating expenses	1,679,077	6,152,918	5,080,386	10,389,462
Net Operating (Loss)	(1,676,819)	(6,152,918)	(5,076,801)	(10,389,462)
Other income (expense)				
Interest expense, net	(867)	280	(902)	
Impairment of goodwill				(64,421)
Unrealized (loss) on Equity Investee	(69,000)			
Unrealized gain (loss) on marketable common stock		41,250		(7,500)
Total other income (expense)	(69,867)	41,530	(902)	(71,921)
Net Loss	(1,746,686)	(6,111,388)	(5,077,703)	(10,461,383)
Less: Net loss attributable to non-controlling interest	(38,368)	(46,443)	(78,413)	(54,968)
Net loss attributable to common shareholders	(1,708,318)	(6,064,945)	(4,999,290)	(10,406,415)
Other Comprehensive Income (Loss)				
Foreign exchange translation adjustment	2,689	1,765	593	(29,541)
Total other comprehensive income (Loss)	2,689	1,765	593	(29,541)
Comprehensive loss attributable to Cannabis Science, Inc.	(1,705,629)	(6,063,180)	(4,998,697)	(10,435,956)
Net loss per common share:				
Basic and diluted	\$(0.00)	\$(0.00)	\$(0.00)	\$(0.01)
Weighted average number of common shares outstanding	1,894,641,010	1,238,910,988	1,787,517,384	1,177,391,731

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

F-2

CANNABIS SCIENCE, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

FOR THE SIX MONTHS ENDED JUNE 30, 2016 and 2015

(UNAUDITED)

	June 30, 2016 \$	June 30, 2015 \$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	(5,077,703)	(10,461,383)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	38,569	—
Stock issued for services	2,445,759	6,027,129
Stock options issued for services	703,500	—
(Gain) / Loss on settlement of liability	—	—
Loss on settlement of debt	588,645	3,718,076
Impairment loss on goodwill	—	—
Warrant expense	—	—
Foreign exchange translation adjustment	2,957	(29,541)
Changes in operating assets and liabilities:	5,950 5	679
Accounts receivables		
Equity investee	(204)	7,500
Inventory	(75,927)	—
Prepaid expenses and deposits	3,896	(46,424)
Accounts payable	160,618	317,736
Accrued expenses, primarily management fees	596,629	95,500
Loan receivable, related parties	19,141	—
NET CASH USED IN OPERATING ACTIVITIES	(588,170)	(370,728)
CASH FLOWS FROM INVESTING ACTIVITIES		
Advances receivable, related parties	17,516	(6,321)
Repayment from advances receivable, related party	—	33,615
Property license for cultivation	(50,000)	—
CASH FLOWS USED IN INVESTING ACTIVITIES	(32,484)	27,294
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of notes payable to stockholders	—	85,877
Proceeds from common stock options exercised	591,690	—
Proceeds from sale of common stock	—	250,000
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	591,690	335,877
NET INCREASE (DECREASE) IN CASH	(28,964)	(7,557)
CASH, BEGINNING OF PERIOD	61,971	10,061
CASH, END OF PERIOD	33,007	2,504

SUPPLEMENTAL CASH FLOW INFORMATION:

Common stock issued for services	1,408,232	8,441,800
Common stock issued for settlement of debt	634,500	3,938,904
Debt converted into common stock	45,855	220,828
Common stock issued for assets	181,350	—
Common stock issued for options exercised	2,453,500	—
Common stock subscription receivables	1,539,810	—
Accounts payable paid through note payable, stockholder	—	130,854
Accounts payable and expenses paid through advances from related parties	19,141	86,133

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

F-3

CANNABIS SCIENCE, INC.**CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT**

FOR THE SIX MONTHS ENDED JUNE 30, 2016

(UNAUDITED)

	Common Shares	Par \$	Preferred Shares	Par \$	Additional Paid-In Capital \$	Prepaid Consulting \$	Common Stock Receivable \$	Accumulated Deficit \$	For E Tr \$
Balance at December 31, 2015	1,581,855,296	1,581,856	1,000,000	1,000	127,942,191	(3,209,032)	(381,500)	(128,017,132)	(
Common stock issued for services	120,500,000	120,500			1,287,732	(632,864)	—		
Common stock issued for settlement of liabilities and debt	45,000,000	45,000			589,500		—		
Common stock issued for private placement	—	—			—		—		
Common stock issued for deposit to acquire assets	15,500,000	15,500			165,850		—		
Common stock issued for stock option exercised	175,000,000	175,000			2,278,500		(1,158,310)		
Amortization of shares issued for services						1,670,391			
Net loss for the period								(4,999,290))
Foreign exchange translation									2

**Balance at
June 30,
2016**

1,937,855,296 1,937,856 1,000,000 1,000 132,263,773 (2,171,505) (1,539,810) (133,016,422) (

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

F-4

CANNABIS SCIENCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016

(UNAUDITED)

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 6, 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 10th and May 6th, 2013, respectively, to pursue business opportunities in Europe and worldwide. There are currently minimal operations in the subsidiaries. Agreements and business disclosures are in process.

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.

On November 20, 2014, the Company signed an amendment to the license agreement with Apothecary Genetics Investments LLC. Pursuant to the amendment, the Company is acquiring all property, building, and equipment of Apothecary. The Company signed a second amendment on January 11, 2016 which superseded both License Agreement and November 20, 2014 Amendment by the issuance of additional 15,500,000 shares of Rule 144 restricted common stock for a property located in Northern California. All the 15,500,000 shares are held in escrow until confirmation of title transfer of the Northern California property to the Company.

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 general 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, 2015 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 the 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, 2016 and 2015. 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, 2015 included in our Form 10-K filed with the SEC on file no. 000-28911 161631274 May 9, 2016. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that can be expected for the year ending December 31, 2016.

The following subsidiaries and controlling interests are included with the consolidated financial statements of the Company for the six months ended June 30, 2016:

In 2012, the Company formed Cannabis Science Europe GmbH ("CSE") to operate joint-venture operations with Dupetit Natural Products Ltd. The JV asset was sold to Endocan Corporation (formerly X-Change Corporation) on December 12, 2012. No operations had commenced at the time of sale of the JV asset. The Company has reignited the CSE by appointing Mr. Alfredo Dupetit on September 19, 2015 as president and chief executive officer of CSE. As recent as January 7, 2016, the Federal Health Ministry in Germany has presented "Cannabis as medicine", a detailed draft bill that aims to modify the Drug Law and relax the strict measures that regulate the consumption of medical cannabis and, above all, become the main vehicle for everything relating to the plant and its medical users in the country. The Company has reinstated the development of cannabis products in February 2016 for medicinal uses in Germany.

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. The Company has commenced some operating activities with cultivation in Spain and product development in 2014. Mario Lap, director of the Company and director and officer of Cannabis Science B.V. manages the day-to-day operations through his private companies MLS BV and MJR BV, both Netherlands registered companies.

On August 6, 2014, the Company signed a proposal letter with Michigan Green Technologies, LLC ("MGT") to acquire an additional 30.1% equity in MGT and completed the transaction with the principals of MGT under the proposal letter on February 20, 2015 to effectively increase the Company's equity ownership to 50.1%. As consideration for acquiring the additional 30.1% equity, the Company issued 1,200,000 shares of common stock with a fair market value of \$60,000 to the principals and shareholders of MGT.

On May 6, 2015 the Company announced the Assets acquisition of Equi-Pharm LLC, a USA manufacturer and distributor of specialty horse and pet grooming and topical applications. The acquisition incorporates an extensive expansion plan for Equi-Pharm including "Large Animal" such as horses, cattle, sheep and the like and "Small Animal" or "Pets" include cats, dogs, pet snakes and the like for medical and cosmetic products. As consideration for acquiring the Assets, which consist of Inventory, Trademark and brand names, and goodwill, the Company issued ten million (10,000,000) shares to the shareholders of Equi-Pharm and they agreed to change its company name. The acquisition was completed on November 16, 2015 and the Company has formed a new wholly owned subsidiary called Equi-Pharm LLC. In the state of Tennessee and start the operation of distributing of existing and new line of products.

For other accounting policies please refer to the Company's Form 10-K with the SEC on file no. 000-28911 161631274 May 9, 2016.

The Company qualifies as an "emerging growth company" as defined in Section 101 of the Jumpstart our Business Startups Act ("JOBS Act") as we do not have more than \$1,000,000,000 in annual gross revenue and did not have such amount as of December 31, 2015, our last fiscal year. We are electing to use the extended transition period for complying with new or revised accounting standards under Section 102(b)(1) of the JOBS Act.

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 \$133,016,422 and had a stockholders' deficit of \$3,132,434 as of June 30, 2016.

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, 2016, 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.

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 commitment 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 in substantial dilution to existing investors.

3. 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).

4. RELATED PARTY TRANSACTIONS

At June 30, 2016, a total of \$52,500 (December 31, 2015: \$52,500) in loans payable was due to the Company's CFO, Robert Kane, through his company, R Kane Holding Inc., secured by a non-interest bearing promissory note due within 30 days of Michigan Green Technologies (50.1% controlled by the Company) liquidating shares in Cannabis Science, Inc. to repay the debt.

At June 30, 2016, the Company owes \$11,871 (December 31, 2015: \$0) to Crown Baus Capital Corp., which advanced a total of \$11,871 to for payment of the Company's expenses in July, August and September of 2015 with no interest and no security. Crown Baus Capital Corp. is a company controlled by Raymond C. Dabney.

At June 30, 2016, the Company owes \$61,902.15 (December 31, 2015: \$61,902.15) to Interstate 101, a shareholder of the Company, with no interest and no security.

Edgar Filing: CANNABIS SCIENCE, INC. - Form 10-Q

At June 30, 2016, the Company owes \$3,164.72 (December 31, 2015: \$3,164.72) to Castor Management Services, a shareholder of the Company, with no interest and no security.

At June 30, 2016, a total of \$191,344 (December 31, 2015: \$191,344) in loans payable was due to Bogat Family Trust, Raymond Dabney the Company's Director and President/CEO as trustee.

At June 30, 2016, \$79,002 (December 31, 2015: \$66,847) was due to MJR BV, owned by Mario Lap director and director and officer of EU subsidiaries.

At June 30, 2016, \$447 (December 31, 2015: \$447) was due to Robert Melamede, former CEO.

At June 30, 2016, the Company held 7,500,000 common shares in the OmniCanna Health Solutions, Inc. (prior to April 24, 2014, the name was Endocan Corporation) (OTCBB: ENDO) ("OmniCanna") representing approximately 8.6% of the issued and outstanding shares of OmniCanna, of which 5,000,000 common shares were acquired at a fair market value of \$150,000 or \$0.03 per share 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 OmniCanna 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 OmniCanna under an Asset Purchase Agreement. The value of the shares at June 30, 2016 and December 31, 2015 was determined to be \$0.007 per share or \$52,500 with the Company not recording any unrealized gain under the Equity Investee rules for the six months ended June 30, 2016 and the value of the shares at December 31, 2015 was determined to be \$0.0058 per share or \$43,500.

On November 5, 2014, the Company transitioned to equity method investee account for the OmniCanna shares pursuant to ASC 323 recording \$247,500 as the fair value of the shares to its equity method investee account. On December 31, 2015, the Company recorded an impairment on the equity method investee account of \$114,000 in relation to the shares. Robert Kane, CFO and director of the Company is also the CFO and a director of OmniCanna. Chad S. Johnson, Esq., COO, general counsel and a director is also a director and general counsel for Omni. Raymond Dabney, CEO is the controlling shareholder of OmniCanna Health Solutions, Inc.

For the six months ended June 30, 2016, the following related party stock-based compensation was recorded:

Related Party	Position	Amount
Raymond Dabney ¹	CEO	\$193,842
Dr. Allen Herman	Chief Medical Officer	25,500
Dr. Roscoe M. Moore, Jr	Chair of Scientific Advisory Board	302,000
Robert Kane	CFO	215,380
Chad S. Johnson, Esq.	COO and General Counsel	215,380
Mario Lap ¹	Director	215,380
Alfredo BernardiDupetit	President & CEO of Cannabis Science Europe GmbH	<u>51,000</u>
		\$1,218,482

¹ Including compensation to entities beneficially owned/control by the related parties

Raymond Dabney, CEO is a controlling shareholder and Chad S. Johnson, COO/General Legal Counsel of ImmunoClin Corporation (OTC: IMCL), respectively. ImmunoClin performs laboratory services, research and pharmaceutical development for the Company through its wholly-owned subsidiary ImmunoClin Limited that operates a laboratory at the London Biosciences Centre.

See Note 6 -Equity Transactions for details of stock issuances to director and officers for services rendered.

Mario Lap, a director of the Company and director and officer of its European subsidiaries, is conducting various business activities of the Company in Spain under his personal name and/or his personal holding companies MJR BV and MLS Lap BV until such time as the Company is able to establish a Spanish subsidiary to conduct its own business operations and activities, including but not limited to: operating lease for farms, asset purchases, office and equipment, personnel employment and other business and operating activities as may be required from time-to-time. The Company anticipates having the Spanish subsidiary setup in fiscal 2016 at which time Mario Lap under fiduciary duty will transfer all business operating activities, agreements, and assets to the Company.

Alfredo Dupetit-Bernardi, International Product Development and President & CEO of Cannabis Science Europe GmbH, is conducting product development through the purchase of cannabis products from his personal company, Dupetit Natural Products GmbH.

Notes payable to Embella Holdings Ltd. totaled \$1,108,896 and \$1,108,896 at June 30, 2016 and December 31, 2015, respectively. As of June 30, 2016, the Company is in default on the promissory notes due and is negotiating with the debtor to extend the date.

Notes payable to Intrinsic Capital Corp. totaled \$231,260 and \$231,260 at June 30, 2016 and December 31, 2015, respectively. See Note 5.

Between January 1, 2015 to March 7, 2015, R. Kane Holding Inc., a company owned by Mr. Robert Kane, director and CFO, had advanced \$52,500 into Michigan Green Technologies, LLC, which is 50.1% controlled by the Company as Loan Payable to R. Kane Holding Inc.

On July 25, 2014, Bogat Family Trust, Raymond Dabney trustee, representing a majority of Series A preferred stockholders, signed a resolution to approve an amendment to the certificate of designation preferences and rights for Series A preferred shares. Pursuant to the amendment filed with the Nevada Secretary of State, the voting rights of Series A preferred stockholders was changed from 1,000 votes per share to 67% of the total vote on all shareholder matters. No common stockholders voted on this amendment.

5. NOTES PAYABLE

As of June 30, 2016, a total of \$1,360,658 (December 31, 2015: \$1,406,513) 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 January 31, 2012 through February 7, 2014. The Promissory notes were in default on June 30, 2016. All promissory notes are unsecured.

As of June 30, 2016, \$61,902 (December 31, 2015: \$61,902) of loan payable is due to a stockholder, Interstate 101 that is non-interest bearing and due on demand. The loan originated between April 1, 2015 and December 31, 2015 for various expenses of the Company.

As of June 30, 2016, \$3,165 (December 31, 2015: \$3,165) of loan payable is due to a stockholder, Castor Management Services that is non-interest bearing and is due on demand. The loan originated on August 14, 2015 for expenses of the Company.

As of February 7, 2016, the Company has settled the balance of \$45,855 promissory note owed to Stacey R. Lewis since March 21, 2015 and issued 45,000,000 shares of common stock pursuant to a debt settlement agreement with a fair market value of \$634,500.

6. EQUITY TRANSACTIONS

The Company is authorized to issue 3,000,000,000 shares of common stock with a par value of \$0.001 per share. These shares have full voting rights. There were 1,937,855,296 and 1,581,855,296 issued and outstanding as of June 30, 2016 and December 31, 2015, respectively.

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 issued and outstanding as of June 30, 2016 and December 31, 2015.

The Company is also authorized to issue 1,000,000 shares of preferred stock. These shares have full voting rights of 67% on all shareholder matters pursuant to amended certificate of designation filed with the Nevada Secretary of State. There were 1,000,000 issued and outstanding as of June 30, 2016 and December 31, 2015.

As set out below, we have issued securities in exchange for services, properties and for debt, using exemptions available under the Securities Act of 1933.

During the six months ended June 30, 2016, the Company issued 120,500,000 common stock for services under various executive and consulting agreements as follows:

On February 1, 2016, the Company entered a management agreement with a consulting firm and agreed to issue 15,000,000 shares of R144 restricted common stock with a fair market value of \$180,000 for investor relation services. The shares were issued on April 7, 2016.

On March 8, 2016, the Company issued 18,000,000 shares R144 restricted common stock to Raymond Dabney, CEO of the Company with a fair market value of \$193,842 for bonus under November 5, 2014 management agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to MLS Lap BV, a company controlled a director of the Company with a fair market value of \$215,380 for bonus under June 24, 2013 management agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to Chad Johnson, COO/General Council with a fair market value of \$215,380 for bonus and services under November 25, 2014 agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to Robert Kane, CFO/director of the Company with a fair market value of \$215,380 for bonus and services under January 20, 2015 agreement.

On March 22, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Scientific Advisory Board Agreement of the 2016 Equity Plan with a fair market value of \$151,000.

On May 16, 2016, the Company issued 5,000,000 shares R144 restricted common stock and 2,500,000 shares of S-8 registered free-trading common stock under an Application Development and Consulting Management Agreement of the 2015 Equity Award Plan with a fair market value of \$86,250.

On May 16, 2016, the Company issued 10,000,000 shares R144 restricted common stock under an International Government Affairs Board Member Agreement with a fair market value of \$151,000.

During the six months ended June 30, 2016, the Company issued stock pursuant to debt settlement agreements as follows:

On February 7, 2016, the Company entered into a partial debt settlement agreement with Stacey R. Lewis to retire \$45,855 of the \$75,044 in promissory notes originated on March 21, 2015 and issued 45,000,000 shares of common stock to partially settle the debt for a loss on settlement of \$588,645.

The aforementioned shares for the settlement of debts were issued without legend under an exemption under Rule 144(b)(1) of the Act. Over six months has passed since the debts accrued on the books of the Company; the Seller is not now, and during the three-month period preceding the transaction has not been considered an “affiliate” of the Company. Furthermore, pursuant to Rule 144(d)(1)(i) the Company is, and has been for a period of at least 90 days immediately before the proposed sale, subject to the reporting requirements of section 13 or 15(d) of the Securities and Exchange Act of 1934, and the proposed resale of the Shares in addition to the Company not being considered a shell company under Rule 144(i)(1). All relating shares were issued to settle the debts.

During the six months ended June 30, 2016, the Company issued stock pursuant to amendment to a property license agreement as follow:

On January 11, 2016, the Company issued 15,500,000 shares of R144 restricted common stock to Apothecary Genetics Investments with a fair market value of \$181,350 for amendment to a property license agreement on February 9, 2012.

Stock Options:

The following options were issued to the Company's V.P of investor relations, CFO and Director for services 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 twenty cents (\$0.20) per share;
- (iii) the option to purchase 500,000 common shares at thirty-five cents (\$0.35) per share; and
- (iv) the option to purchase 1,000,000 common shares at fifty cents (\$0.50) per share.

On February 22, 2016, the Company issued 7,000,000 shares S-8 registered free-trading common stock exercised under Option Agreement of the 2015 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$86,100 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On February 22, 2016, the Company issued 6,500,000 shares S-8 registered free-trading common stock exercised under Option Agreement of 2015 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$79,950 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On February 29, 2016, the Company issued 25,000,000 shares S-8 registered free--trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$300,000 to a consultant under management agreement.

On March 22, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2015 Equity Plan with exercise price at \$0.01 and a fair market value of \$226,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$75,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$151,000 to a consultant under management agreement.

On March 22, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$226,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Scientific Advisory Board Agreement of the 2016 Equity Plan with a fair market value of \$151,000.

On March 22, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$75,500.

On May 10, 2016, the Company issued 18,000,000 shares of S-8 registered free-trading common stock for balance of shares exercised under an Option Agreement dated February 22, 2016 under 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$221,400 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

Edgar Filing: CANNABIS SCIENCE, INC. - Form 10-Q

On May 10, 2016, the Company issued 18,500,000 shares of S-8 registered free-trading common stock for balance of shares exercised under an Option Agreement dated February 22, 2016 under 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$227,550 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On May 16, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$75,500 to a consultant under management agreement.

On May 16, 2016, the Company issued 10,000,00 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$151,000 to Alfredo BernardiDupetit, President & CEO of Cannabis Science Europe GmbH.

On May 16, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$264,000 to a consultant under management agreement.

On May 16, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$176,000 to a consultant under management agreement.

A summary of the status of the Company's option grants as of June 30, 2016 and the changes during the period then ended is presented below:

	Shares	Weighted-Average Exercise Price
Outstanding December 31, 2015	4,200,000	\$ 0.195
Granted	175,000,000	\$ 0.010
Exercised	175,000,000	\$ 0.010
Expired	2,500,000	\$ 0.040
Outstanding June 30, 2016	1,700,000	\$ 0.41
Options exercisable at June 30, 2016	1,700,000	\$ 0.41

1,700,00 shares of these options at an exercise price of \$0.415 a share, do not expire and continuing indefinitely for the duration of existing management agreement and services thereunder with Robert Kane. The weighted average fair value at date of grant for options during year ended June 30, 2016 was estimated using the Black-Scholes option valuation model with the following:

Average expected life in years for options with no expiry	unlimited Years
Average risk-free interest rate	2.00 %
Average volatility	90 %
Dividend yield	0 %

7. PROPERTY FARMING LICENSE

On March 24, 2016, the Company entered a 15 years Joint Venture License Agreement with the Ft. McDermitt Allotment land Allotees, which is on the Ft. McDermitt Tribal Reservation, Raymond C. Dabney University, American Education Consulting Group and Cannabis Science, Inc. for a total of ten (10), one (1) acre parcels of land. The project is designed to benefit both the Ft. McDermitt Tribe and Members, and Allotment Allotees. Cannabis Science made two initial payments of \$50,000 for licensing and initial development of two one (1) acre parcels of land located in Fort McDermitt Tribal Reservation in the State of Nevada, USA. Each one (1) acre parcel of land is specifically designated for placement no more than twelve (12) three (3,000) square foot greenhouses for the production of Cannabis and all Cannabis related products. All harvested products are to be delivered and sold to qualified licensed distribution centers. The Company is to share 40% of the Adjusted Gross Income after deduction of related operating expenses and cost to build the green houses.

8. DEPOSITS

On February 9, 2012, the Company signed a license agreement with Apothecary to produce several Cannabis Science Brand Formulations for the California medical cannabis market. As well, Apothecary will provide research and development facilities with full circle operations including a California laboratory facility for internal research and development, along with 16 unique genetic strains specifically generated and maintained by a cancer survivor who recognizes the importance of proper growth and breeding in addition to investing \$250,000 in research and development in the first 24 months. Apothecary failed to meet several contract provisions including investing \$250,000 in R&D, setting up a laboratory facility, and reporting and remitting license fees owing to the Company. On November 20, 2014, the Company signed an amendment to the license agreement. Pursuant to the amendment, the Company is acquiring all property, building, and equipment of Apothecary in exchange for 14,500,000 Rule 144 restricted stock with a fair market value of \$971,500.

On January 11 2016, the Company signed a second amendment to the license agreement and issued 15,500,000 shares of Rule 144 restricted stock, held in escrow by the Company's attorney, with a fair market value of \$181,350, until the title has been transferred to the company. Pursuant to the second amendment the Company waives prior Royalties owed under any Section of any previous Agreements, and Apothecary shall make business introductions in Jamaica for the Company to work with government licensed growers, laboratories, doctors, and any other mutually agreeable business introductions. Apothecary will immediately sign and transfer ownership of the Northern California Property to the Company and repay and discharge a lien on the property within 12 months signing the second amendment.

The Company recorded an equivalent deposit of \$181,350 for the six months ended June 30, 2016 until the acquisition of assets closes, which is anticipated during August in the third quarter of 2016.

9. EQUITY METHOD INVESTEE

On November 5, 2014, the Company accounted for its investment and loans in OmniCanna Health Solutions, Inc. (formerly Endocan Corporation) using the equity method pursuant to ASC 323 – Investments – Equity Method and Joint Ventures. In accordance with ASC 323, when the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity’s operating and financial policies, the Company accounts for its investment in accordance with the equity method of accounting. This generally applies to cases in which the Company owns a voting or economic interest of between 20 and 50 percent.

The accounting using the equity method is in conjunction with appointment of Raymond Dabney as CEO and director of the Company on November 5, 2014, in addition to Mr. Dabney being a controlling shareholder of the Company since September 2009 and a controlling shareholder of OmniCanna Health Solutions, Inc. since June 2013. Therefore, the Company was deemed to have significant influence and control of OmniCanna Health Solutions Inc.

On November 5, 2014, the Company recorded \$247,500 in marketable securities and \$85,631 (based on currency converted as of June 30, 2016) in loans to OmniCanna Health Solutions, Inc. (hereinafter referred as “OHS”) to its equity method investee account in accordance with ASC 323.

An impairment on the equity method investee account of \$48,750 was recognized for the six months ended June 30, 2015 due to the fluctuation in the value of OHS’s marketable securities.

10. GOODWILL and INTANGIBLE ASSETS

-

	June 30, 2016	December 31, 2015
Intellectual assets, primarily intellectual property and goodwill	\$830,988	\$830,988
Less: accumulated amortization	(483,868)	(445,299)
Total intangible assets, net	\$347,120	\$385,689

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 both intellectual assets and Goodwill).

11. COMMITMENTS

The Company has lease commitments for its European operations under private companies, MLS Lap B.V. and MJR B.V. owned and controlled by Mario Lap, director of the Company and director and officer of EU subsidiaries. Negotiations are ongoing in regards to preparing finalized agreements between the Company and Mr. Lap's companies.

12. SUBSEQUENT EVENTS

On July 4, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$76,500 to a consultant under management agreement.

On July 6, 2016, the Company awarded 10,000,000 shares of S-8 registered free-trading common stock options under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$148,000 to a consultant under management agreement. These share options have not been exercised.

On July 26, 2016, the Company issued 7,500,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$90,000 to a consultant under management agreement.

On July 26, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$60,000 to a consultant under management agreement.

On July 26, 2016, the Company issued 2,500,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$30,000 to a Director and CFO, Robert Kane under management agreement.

On July 26, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$60,000 to a consultant under management agreement.

On July 26, 2016, the Company issued 7,500,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$90,000 to a consultant under management agreement.

On July 26, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under 2016 Equity Award Plan with a fair market value of \$60,000 to a consultant under management agreement.

PART I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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 summary, 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 a strategic partner and related company, OmniCanna Health Solutions, Inc. And Cannabis Science will move forward at the same time with pharmaceutical grade product 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. 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, 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 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 10th and May 6th, 2013, respectively, to pursue business opportunities in Europe and worldwide.

There are minimal operating activities in the subsidiaries as of September 30, 2015. Mario Lap, a director of the Company and director and officer its European subsidiaries, is conducting various business activities of the Company in Spain under his personal name and/or his personal holding companies MLS Lap B.V. and MJR B.V. until such time as the Company is able to establish a Spanish subsidiary to conduct its own business operations and activities, including but not limited to: operating lease for farms, asset purchases, office and equipment, personnel employment and other business and operating activities as may be required from time-to-time.

On August 6, 2014, the Company signed a proposal letter with Michigan Green Technologies, LLC ("MGT") to acquire an additional 30.1% equity in MGT that would increase the Company's equity ownership to 50.1%. As consideration for acquiring the additional 30.1% equity, the Company issued a total of twenty million (20,000,000) shares to the principals and shareholders of MGT over 12 months (see Form 8-K with the SEC on file no. 000-28911 August 8, 2014).

On January 5, 2015 the Company announced the International release of 8 initial products that will be synergistically produced, distributed and marketed across the Netherlands, Spain and California where Cannabis Science is active and has cannabis production facilities. The products are currently ready for pre-clinical studies, self-medicating patient ailment usage, marketing release, sales and distribution. The company also released The Cannabis Science Patient Access Center (PAC) <http://pac.cannabisscience.com>, in beta version, is now available for patients to track usage and receive updates.

On May 7, 2015 the Company announced the Assets acquisition of Equi-Pharm LLC, a USA manufacturer and distributor of specialty horse and pet grooming and topical applications. The acquisition incorporates an extensive expansion plan for Equi-Pharm including "Large Animal" such as horses, cattle, sheep and the like and "Small Animal" or "Pets" include cats, dogs, pet snakes and the like for medical and cosmetic products. As consideration for acquiring the Assets, which consist of Inventory, Trademark and brand names, and goodwill, the Company issued ten million (10,000,000) shares to the shareholders of Equi-Pharm and agreed to change its company name. The acquisition was completed on November 16, 2015 and the Company has formed a new wholly owned subsidiary called Equi-Pharm LLC. The Company is working closely with management of Equi-Pharm to expand the product lines.

On May 19, 2015 Cannabis Science announced the expansion of licensing deal with Purple Haze Properties. Cannabis Science and Purple Haze Properties are working together to launch exciting lines of quality cannabis products using scientific genetics and creating an education platform to share information from doctors and patients around the world about the advances of cannabis research.

On May 27, 2015 the Company announced a Historic Collaborative Drug Development deal with IGXBio and its GenePro®, a DNA-based immunotherapeutic that recently received FDA IND approval to enter into human trials. The companies intend to develop a joint protocol to demonstrate potential synergistic effects of their respective drug candidates in HIV, as well as potential new drug candidates. IGXBio is a privately held clinical stage biotechnology company developing advanced DNA immunotherapies for HIV infection, based in Fairway, KS, USA.

On July 16, 2015 Cannabis Science announced guidance in regards to its State-by-State initiatives, including its new product releases. On the forefront are the California new product releases. The Company has signed a research and distribution agreement with Cannabis Science Research Foundation (CSRF). The CSRF will be responsible for the release and distribution of the CBIS products for its initial State-by-State initiatives in California. The CSRF distribution agreement is due to the committed focus CBIS has on its federal drug development program. As a result of this new agreement with CSRF the Cannabis Science Patient Access Center will be moved to the CSRF website as well.

On November 2, 2015 the Company announced a significant collaborative drug development deal with IGXBio Inc., and its GenePro®, a DNA-based immunotherapeutic that recently received FDA IND approval to enter into human trials. The companies developed joint protocols that explore potential synergistic effects of their respective drug candidates, as well as potential new drug candidate opportunities. IGXBio has a drug called GenePro®, which is already registered with the FDA and has an IND number. This expedites the process to seek FDA approval in the future. GenePro® is designed to promote an anti-HIV immune response that facilitates virus control in HIV-infected subjects. There are more than 150 peer-reviewed publications that describe the effectiveness of GenePro®. The inflammatory response that is associated with HIV infection is present at even low levels of viral replication, and is a major causal factor for the morbidities and associated mortality of HIV infection. Low-grade inflammation frequently occurs despite clinically successful anti-retroviral therapy and is associated with increased incidence of heart disease, bone disease, and cancers.

On November 11, 2015, Cannabis Science announced the release of seven original cannabinoid-based animal care products through its wholly owned subsidiary, Equi-Pharm, LLC.

On November 25, 2015 the Company announced positive results from its initial test run of its Pure Decarboxylated CO2 Oil (PDCO) released through the Cannabis Science Research Foundation (CSRF or the Foundation) to 15 dispensaries and several less fortunate self-medicating patients. This trial, collaborative rollout by CSRF, as contracted by Cannabis Science to the California not-for-profit, was designed to meet two primary goals. The first, to conduct tests on the efficacy of the product for patients; the second, to gather proprietary data based on testimonials from real self-medicating consumers from their firsthand experiences. The feedback received will be used to influence the Company's continuing efforts to bring the best cannabinoid-based formulations to market. On November 30, 2015 Cannabis Science announced the launch of their cannabinoid-formulated capsule product line. The initial capsule formulations released are CBD, Indica, and Sativa; each of the three types of caps will be available in 25mg, 50mg, and 100mg doses and will be provided in two-dose packs with more size options to be made available in the near future.

On December 10, 2015 the Company announced that Cannabis Science entered Select, New High-Dosage product line of CBD, Sativa, and Indica Capsules into the Industry-Famous Emerald Cup Event in Santa Rosa, CA on December 12th and 13th.

On December 15, 2015 after successful formulation work, Cannabis Science follows through with a full clinical drug development agreement with ImmunoClin to deliver GMP quality pre-clinical data to enter CS-NEURO-1 into a Phase I human study in Europe. After ImmunoClin successfully completed its one-year formulation work for CBIS, focusing on cannabis extracts and cannabinoids, the results are compelling and conclusive. ImmunoClin will, under its class I license, initiate, manage, and coordinate all aspects of the new comprehensive clinical research program on behalf of Cannabis Science. The new program will focus on delivering compliant GMP quality pre-clinical data, including cultivation of CBIS specific cannabis strains, formulation and manufacturing of clinical grade material to enable entry of CS-NEURO-1 and other cannabinoid based products into a Phase I human studies in Europe.

On March 24, 2016, the Company entered a 15 years Joint Venture License Agreement with the Ft. McDermitt Allotment land Allotees, which is on the Ft. McDermitt Tribal Reservation, Raymond C. Dabney University, American Education Consulting Group and Cannabis Science, Inc. for a total of ten (10), one (1) acre parcels of land. The project is designed to benefit both the Ft. McDermitt Tribe and Members, and Allotment Allotees. Cannabis Science made an initial payment of \$50,000 for licensing and initial development of the first two one (1) acre parcel of land located in Fort McDermitt Tribal Reservation in the State of Nevada, USA. Each one (1) acre parcel of land is specifically designated for placement no more than twelve (12) three (3,000) square foot greenhouses for the production of Cannabis and all Cannabis related products. All harvested products are to be delivered and sold to qualified licensed distribution centers. The Company is to share 40% of the Adjust Gross Income after deduction of related operating expenses and cost to build the green houses.

The Company is working on several business acquisition and development projects to increase business and revenue generation in 2016 and beyond, including but not limited to: product licensing and royalty agreements, private label hemp product line, consulting, and other strategic acquisitions to support product development, production, and distribution of newly acquire or manufactured cannabis and hemp based products. There can be no assurance that these will be successful in generating revenues in 2016.

Liquidity

The Company has a working capital deficit of \$4,811,535 as of June 30, 2016 compared to a working capital deficit of \$4,100,603 as of December 31, 2015. There are insufficient liquid assets to meet current liabilities or sustain operations through 2016 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 \$1,340,156 due to stockholders and currently is in default. The Company is negotiating with the debtors to extend the notes payable.

Contractual Obligations

The Company has various commitments under consulting contracts, debt settlement, licensing agreements, laboratory services agreement, joint development, and joint venture agreement.

Capital Resources

The Company has additional capital resource requirements for personnel, supplies, research and development, laboratory, cultivation equipment, green houses and scientific equipment of approximately \$5,381,500 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 not 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 six months ended June 30, 2016 (“2016”) as compared to the prior year six months ended June 30, 2015 (“2015”):

The Company had \$5,787 in revenues for the 2016 compared to \$0 for 2015. This increase in revenue is due to assets acquisition of Equi-Pharm and license revenue from product sales.

Our research and development expenses decreased by \$54,683 to \$258,537 for the six months ended June 30, 2016 compared to \$313,220 for the six months ended June 30, 2015.

Net loss on settlement of debt decreased by \$3,129,431 to \$588,645 for the six months ended June 30, 2016 compared to \$3,718,076 for the six months ended June 30, 2015. This decrease is due to the lesser amount of debt settlement and lower share price of the Company’s stock relative to loss related to settling debt at a lower share price.

General and administrative expenses decreased by \$1,962,790 to \$3,781,168 for the six months ended June 30, 2016 compared to \$5,743,958 for the six months ended June 30, 2015. This decrease is due to decreased stock compensation expense pursuant to management consulting and bonus agreements.

The Company is working on several business development projects to generate revenues, including: signing a new license agreement with Ft. McDermitt Indian Tribe in Nevada, and completion with Apothecary Genetics Investments LLC that will generate increased license and royalty revenue, a hemp product line, and other strategic acquisitions to support product development, production, and distribution of newly acquired or manufactured cannabis and hemp based products. The Company's drug development with the pending joint venture with Unistraw is also ongoing through its laboratory services agreement with ImmunoClin Limited in London, UK. In addition, the Company signed an agreement with Equi-Pharm for the commercialization of pet products for distribution in California. Notwithstanding, there can be no assurance that these will be successful in generating revenues in 2016.

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, 2016, 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 11, 2016, the Company issued 15,500,000 shares of R144 restricted common stock to Apothecary Genetics Investments with a fair market value of \$181,350 for amendment to a property license agreement on February 9, 2012.

On January 20, 2016, the Company issued 10,000,000 shares S-8 registered free-trading common stock under Option Agreement of 2015 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$117,000 to a consultant.

On February 1, 2016, the Company entered a management agreement with a consulting firm and agreed to issue 15,000,000 shares of R144 restricted common stock with a fair market value of \$180,000 for investor relation services. The shares were issued on April 7, 2016.

On February 7, 2016, the Company entered into a partial debt settlement agreement with Stacey R. Lewis to retire \$45,854.71 of the \$75,044 in promissory notes originated on March 21, 2015 and issued 45,000,000 shares of common stock to partially settle the debt for a loss on settlement of \$588,645.

On February 22, 2016, the Company issued 7,000,000 shares S-8 registered free-trading common stock exercised under Option Agreement of the 2015 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$86,100 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On February 22, 2016, the Company issued 6,500,000 shares S-8 registered free-trading common stock exercised under Option Agreement of 2015 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$79,950 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On February 29, 2016, the Company issued 25,000,000 shares S-8 registered free--trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$300,000 to a consultant under management agreement.

On March 8, 2016, the Company issued 18,000,000 shares R144 restricted common stock to Raymond Dabney, CEO of the Company with a fair market value of \$193,842 for bonus under November 5, 2014 management agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to MLS Lap BV, a company controlled a director of the Company with a fair market value of \$215,380 for bonus under June 24, 2013 management agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to Chad Johnson, COO/General Council with a fair market value of \$215,380 for bonus and services under November 25, 2014 agreement.

On March 8, 2016, the Company issued 20,000,000 shares R144 restricted common stock to Robert Kane, CFO/director of the Company with a fair market value of \$215,380 for bonus and services under January 20, 2015 agreement.

On March 22, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2015 Equity Plan with exercise price at \$0.01 and a fair market value of \$226,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$75,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$151,000 to a consultant under management agreement.

On March 22, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Plan with exercise price at \$0.01 and a fair market value of \$226,500 to a consultant under management agreement.

On March 22, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Scientific Advisory Board Agreement of the 2016 Equity Plan with a fair market value of \$151,000.

On March 22, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$75,500.

On May 10, 2016, the Company issued 18,000,000 shares of S-8 registered free-trading common stock for balance of shares exercised under an Option Agreement dated February 22, 2016 under 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$221,400 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On May 10, 2016, the Company issued 18,500,000 shares of S-8 registered free-trading common stock for balance of shares exercised under an Option Agreement dated February 22, 2016 under 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$227,550 to a consultant under management agreement for a total Stock Option of 25,000,000 common shares with fair market value of \$307,500.

On May 16, 2016, the Company issued 5,000,000 shares R144 restricted common stock and 2,500,000 shares of S-8 registered free-trading common stock under an Application Development and Consulting Management Agreement of the 2015 Equity Award Plan with a fair market value of \$86,250.

On May 16, 2016, the Company issued 10,000,000 shares R144 restricted common stock under an International Government Affairs Board Member Agreement with a fair market value of \$151,000.

On May 16, 2016, the Company issued 5,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$75,500 to a consultant under management agreement.

On May 16, 2016, the Company issued 10,000,00 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$151,000 to Alfredo BernardiDupetit, President & CEO of Cannabis Science Europe GmbH.

On May 16, 2016, the Company issued 15,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$264,000 to a consultant under management agreement.

On May 16, 2016, the Company issued 10,000,000 shares of S-8 registered free-trading common stock under Option Agreement of 2016 Equity Award Plan with exercise price at \$0.01 and a fair market value of \$176,000 to a consultant under management agreement.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

See Financial Statement Notes 4 in regards to stock compensation for officers and directors.

11

ITEM 6. EXHIBITS

Exhibit No.	Document Description	Filed Herewith (X) Incorporated by ref (I)
<u>31.1</u>	Certification by Raymond C. Dabney, Chief Executive Officer, as required under Section 302 of Sarbanes-Oxley Act of 2002.	X
<u>31.2</u>	Certification by Robert Kane, Chief Financial Officer, as required under Section 302 of Sarbanes-Oxley Act of 2002.	X
<u>32.1</u>	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
<u>32.2</u>	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	X
<u>99.1</u>	Debt Settlement Agreement	X
EX-101.INS	XBRL Instance Document	X
EX-101.SCH	XBRL Taxonomy Extension Schema	X
EX-101.CAL	XBRL Taxonomy Extension Calculation Linkbase	X
EX-101.LAB	XBRL Taxonomy Extension Label Linkbase	X
EX-101.PRE	XBRL Taxonomy Extension Presentation Linkbase	X
EX-101.DEF	XBRL Taxonomy Extension Definition Linkbase	X

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: August 10, 2016 */s/ Raymond C.*
Dabney
Raymond C. Dabney
Chief Executive Officer

Date: August 10, 2016 */s/ Robert Kane*
Robert Kane
Chief Financial Officer

