CANNABIS SCIENCE, INC.
Form 10-Q
August 20, 2012

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, 2012.

OR

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

Commission File Number: 001-28911

CANNABIS SCIENCE, INC.

(Exact name of registrant as specified in its charter)

Nevada

91-1869677

(State or other jurisdiction of incorporation or

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

organization)

6946 N Academy Blvd, Suite B #254, Colorado Springs, CO 80918

(Address of principal executive offices,

including zip code)

888-889-0888

(Registrant s telephone number, including area code)

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

Yes (X) No ( )

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes (X) No ( )

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

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

Large accelerated filer ( )

Accelerated filer ( )

Non-accelerated filer ( )

Smaller reporting company (X)

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

Yes ( ) No (X)

At August 16, 2012, the Company had outstanding of 691,770,573 shares of Common Stock, $0.001 par value per share.

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Period Ended June 30, 2012

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PART 1 FINANCIAL INFORMATION.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Balance Sheets

June 30, 2012 and December 31, 2011

June 30,

2012

December 31,

(unaudited)

$

2011

$

ASSETS

Current Assets

Cash

	4,411	2,197
Accounts receivable, related party	87,230	-
Inventory	60,258	-
Prepaid expenses and deposits	28,565	3,128
Loans receivable, related party	11,750	-
Total current assets	192,214	5,325
Deposits	4,000	

6,666

Computer and Equipment, net of accumulated

depreciation of $3,903 and $2,839

3,107

967

Intangibles, CCI acquisition (Note 1)

147,000

-

Intangibles, GGECO acquisition (Note 1)

946,963

-

Intangibles, Goldsmith Health Care (Note 1)

457,500

-

Intangibles, net of accumulated depreciation

of $88,986 and $62,551

39,194

47,588

TOTAL ASSETS

1,789,977

60,546

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

Accounts payable

500,266

476,590

Accrued expenses

1,249,941

1,163,126

Advances from related parties (Note 3)	198,703	156,818
Management bonuses	300,000	300,000
Notes payable to related parties (Note 3)	155,000	
Notes payable to stockholders	529,690	194,413
Total current liabilities and total liabilities	2,933,600	2,290,947
Stockholders Deficit		
Preferred stock, $0.001 par value		

Authorized 1,000,000 shares		
Issued and outstanding, 999,999 shares		
respectively	1,000	1,000
Common stock, $0.001 par value		
Authorized 250,000,000 shares		
Issued and outstanding, 653,620,573 shares and		
305,420,574, respectively	653,621	305,421
Prepaid consulting	(4,513,096)	(379,156)

Additional paid-in capital	85,214,528	68,379,003
Accumulated deficit	(82,499,676)	(70,536,669)
Total stockholders' deficit	(1,143,623)	(2,230,401)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	1,789,977	60,546

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

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

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CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY/(DEFICIT)

FOR THE PERIOD FROM JANUARY 27, 2005 (inception) to JUNE 30, 2012

(Unaudited)

Additional

Preferred

Common

Paid-in

Prepaid

Accumulated

Shares

Par

Shares

Par

Capital

Consulting

Deficit

Total

$

$

$

$

$

$

Bal, Jan 27, 2005

-

-

-

-

-

-

-

Founder's stock issued

83,800

84

(84)

-

Stock issued for debt

8,000

8

399,992

400,000

Shares issued for

license agreement

86,188

86

(86)

-

Effect of reverse merger

13,840

14

(200,014)

(200,000)

Divestiture of subsidiary

to related party	
	-
	-
	544,340
	544,340
Net loss for the period	
	(807,600)
	(807,600)
Bal, Dec 31, 2005	
	-

-

191,828

192

744,148

-

(807,600)

(63,260)

Shares issued for

employment

45,500

45

8,487,455

8,487,500

Shares issued for

service

	171,080
	171
	28,798,329
	(7,633,750)
	21,164,750

Shares issued for

lease agreement

6,770

7

406,193

(350,200)

56,000

Net loss for the year

(36,906,584)

(36,906,584)

Bal, Dec 31, 2006

-

-

415,178

415

38,436,125

(7,633,750)

(38,064,384)

(7,261,594)

Shares issued for

service

63,020

63

528,285

(387,500)

140,848

Shares issued for

debt

350,000

350

349,650

350,000

Amortization of

beneficial conversion

feature

1,066,657

1,066,657

Amortization of shares

issued for services

8,021,250

8,021,250

Shares issued for

properties

500,000

500

4,999,500

5,000,000

Net loss for the year

(15,007,117)

(15,007,117)

Bal, Dec 31, 2007

-

-

1,328,198

1,328

45,380,217

-

(53,071,501)

(7,689,956)

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

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	Preferred Shares	Par $	Common Shares	Par $	Additional Paid-in Capital $	Prepaid Consulting $	Accumulated Deficit $	Total $
Bal, Dec 31, 2007	-	-	1,328,198	1,328	45,380,217	-	(53,071,501)	(7,689,956)

Amortization of beneficial conversion feature					32,335			32,335
Cancellation and amortization of shares			(919)	(1)	1			-
Shares issued for cash			10,000	10	19,990			20,000
Shares issued for debt			990,000	990	98,010			99,000
Shares issued for acquisition			10,000,000	10,000	2,490,000			2,500,000
Shares issued for service			270,000	270	128,230			128,500
Net profit for the year							3,559,617	3,559,617
Bal, Dec 31, 2008	-	-	12,597,279	12,597	48,148,783	-	(49,511,884)	(1,350,504)
Shares issued for cash			2,522,495	2,523	197,552			200,075
Shares issued for service			8,855,000	8,855	2,507,195			2,516,050
Cancellation of shares			(10,000)	(10)	10			-
Shares issued for debt			3,680,000	3,680	2,020,320			2,024,000
Shares issued for service	999,999	1,000						1,000
Shares issued for assets			2,100,000	2,100	123,900			126,000
Net loss for the year							(4,532,061)	(4,532,061)
Bal, Dec 31, 2009	999,999	1,000	29,744,774	29,745	52,997,760	-	(54,043,945)	(1,015,440)
Common stock issued for cash	-	-	1,245,800	1,246	137,540		-	138,786
Common stock issued for services	-	-	26,680,000	26,680	3,670,978	(3,530,808)	-	166,850
Common stock issued for acquisition write-off	-	-	350,000	350	36,150	-	-	36,500
Common stock issued for debt	-	-	42,750,000	42,750	5,249,600	-	-	5,292,350
Amortization of shares issued for services	-	-	-	-	-	2,208,178	-	2,208,178
Common shares pending cancelation	-	-	400,000	400	(400)		-	-
Net loss for the period	-	-	-	-	-	-	(8,153,680)	(8,153,680)
Bal, Dec 31, 2010	999,999	1,000	101,170,574	101,171	62,091,628	(1,322,630)	(62,197,625)	(1,326,456)
Common stock issued for services	-	-	37,250,000	36,850	1,157,575	(1,146,700)	-	47,725
Common stock issued for debt	-	-	167,400,000	167,400	5,129,800	-	-	5,297,200
Amortization of shares issued for services	-	-	-	-	-	2,090,174	-	2,090,174
Net loss for the period	-	-	-	-	-	-	(8,339,044)	(8,339,044)
Bal, Dec 31, 2011	999,999	1,000	305,820,574	305,421	68,379,003	(379,156)	(70,536,669)	(2,230,401)
Common stock issued for services	-	-	199,999,999	200,000	6,208,725	(4,827,475)	-	1,581,250
	-	-	117,200,000	117,200	9,268,300	-	-	9,385,500

Common stock issued for debt								
Amortization of shares issued for services	-	-	-	-	-	693,535	-	693,535
Common stock issued for acquisitions CCI, Goldsmith and GGECO	-	-	31,000,000	31,000	1,358,500	-	-	1,389,500
Net loss for the period	-	-	-	-	-	-	(11,963,007)	(11,963,007)
Bal, Jun 30, 2012	999,999	1,000	653,620,573	653,621	85,214,528	(4,513,096)	(82,499,676)	(1,143,623)

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

CANNABIS SCIENCE, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

For the six months

Period from

January 27,

2005

(inception) to

ended June 30,

June 30,

2012

2011

2012

$

$

$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss

(11,963,007)

(4,556,748)

(82,499,676)

Less:

Net (income) loss from discontinued operations

-

-

(1,601,074)

Total net loss

(11,963,007)

(4,556,748)

(80,898,602)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation

300

691

17,047

Amortization

8,394

10,574

9,557,249

Impairment on oil lease investments

-

-

5,076,667

Stock issued for services

2,274,785

1,675,180

39,210,368

Loss (gain) on settlement of debt

9,278,800

2,371,700

20,649,788

Loss (gain) on acquisition write-off

-

-

36,500

Changes in operating assets and liabilities:

Accounts receivable

(87,230)

-

(89,317)

Loans receivable

(11,750)

-

(11,750)

Prepaid expenses and deposits

(17,771)

14,882

	(27,565)
Inventory	
	(60,258)
	-
	(89,360)
Accounts payable	
	125,755
	58,327
	1,891,042
Deferred license revenue	
	-
	(73,334)
	-
Accrued expenses	
	86,815
	390,318
	495,886
Due to related parties	
	-
	-
	66,500
Accrued interest payable to affiliate	
	-
	-
	214,892

CASH FLOWS USED IN OPERATING ACTIVITIES

FROM CONTINUING OPERATIONS

(365,166)

(108,410)

(3,900,654)

CASH FLOWS PROVIDED BY OPERATING

ACTIVITIES FROM DISCONTINUED OPERATIONS

-

-

898,927

NET CASH USED IN OPERATING ACTIVITIES

(365,166)

(108,410)

(3,001,727)

CASH FLOWS FROM INVESTING ACTIVITIES

Net liabilities acquired in GGECO

(11,963)

-

(11,963)

Purchase of oil & gas leases

-

-

(30,000)

Purchase of property, plant & equipment	(2,440)	-	(45,962)
CASH FLOWS USED IN INVESTING ACTIVITIES	(14,403)	-	(87,925)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible note-related party	-	-	951,342
Proceeds from advances from officer	2,000	-	96,500
Repayments on advances from officer	-	(1,807)	(74,000)
Proceeds from notes payable-stockholders	379,783	63,646	

598,958

Repayments on notes payable-stockholders

-

-

(691)

Advances from related parties

-

46,323

1,163,093

Proceeds from sale of common stock

-

-

358,861

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES

381,783

108,162

3,094,063

NET INCREASE IN CASH

2,214

(248)

4,411

CASH, BEGINNING OF PERIOD

2,197

1,190

			-
CASH, END OF PERIOD	4,411	942	4,411
SUPPLEMENTAL CASH FLOW INFORMATION:			
Common stock issued for services	6,408,725	-	13,817,858
Net liabilities assumed with recapitalization	-	-	200,000
Divestiture of subsidiary to related party	-	-	794,340
Common stock issued for settlement of debt	9,385,500	39,300	23,148,050
Debt converted into common stock	106,700	-	

			784,091
Common stock issued for acquiring oil & gas leases	-	-	7,906,200
Common stock issued for assets	1,389,500	-	1,515,500
Preferred stock issued for services	-	-	1,000
Common stock for loss on acquisition write-off	-	-	36,500
Acquisition payment paid through note payable, related party	150,000	-	150,000
Prepaid license fees paid through note payable, related party	5,000	-	5,000

Accounts payable paid through note payable, stockholder	62,194	-	175,023
Accounts payable paid by related parties	13,884	-	53,967
Accounts payable paid through stockholder gift	50,000	-	50,000

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

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2012

1. SUMMARY OF SIGNIFICICANT 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.

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

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

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

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

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

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

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

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

On May 8, 2009, the Company signed a Share Purchase Agreement to acquire Rockbrook, Inc. (Rockbrook), a Colorado medical cannabis dispensary. Due to regulatory changes that prevented a non-Colorado resident from owning a dispensary within the state, the Company signed a mutual termination agreement with Rockbrook on July 27, 2010 to retroactively cancel the acquisition.

On April 27, 2011, the Company was advised by the principal of Rockbrook, Inc. that the current licensing agreement was no longer in effect and that a new license agreement would be signed once new terms could be agreed upon. Despite this notification from Rockbrook, Inc., a legally signed license agreement is still in effect between the Company and Rockbrook. As of June 30, 2012, the Company is re-assessing the license agreement with Rockbrook and how to resolve the dispute to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on.

On February 9, 2012, the Company signed a license agreement with Apothecary Genetics Investments LLC. 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 consideration of this agreement, on January 1, 2012, the Company entered into a 25 year management agreement with Dr. Mohammad Afaneh to act as Chief Operating Officer of Cannabis Science, Inc. Dr. Afaneh received 28,500,000 common shares valued at $299,250 under this agreement. In addition, on February 10, 2012, Dr. Afaneh signed a management bonus agreement where he received 5,000,000 common shares valued at $185,000 as a signing bonus for entering into his management agreement. In addition, on January 1, 2012, the Company entered into a 25 year management agreement with Bret Bogue to act as Director of Horticulture and head of research and development. Mr. Bogue received 28,500,000 common shares valued at $299,250 under this agreement. In addition, on February 10, 2012, Mr. Bogue signed a management bonus agreement where he received 5,000,000 common shares valued at $185,000 as a signing bonus for entering into his management agreement. These common shares were issued on April 24, 2012.

On February 9, 2012, the Company acquired GGECO University, Inc. (GGECO), an online video-based medical cannabis education system, offering courses dealing with medical cannabis law, the benefits of medical marijuana, cooking, horticulture, and bud tending. Following the university's name change to Cannabis Science University, the Company hopes to use this platform to educate the general public, patients, and even those who have already been involved in the medical cannabis industry on the medical benefits of cannabis, how it is grown, how to use it safely, and the many applications or ways to administer the medication. In consideration of this agreement, the Company issued 25,000,000 common shares with a fair market value of $935,000 to the principals of GGECO and assumed net liabilities of $24,686. The preliminary valuation of GGECO acquisition totaling $984,686 has been allocated to intangibles as at June 30, 2012. These common shares were issued on April 24, 2012.

On March 21, 2012, the Company acquired Cannabis Consulting Inc. (CCI Group), which consists of a group of businesses operated by Robert J. Kane, including: all contracted rights, properties, patents, trademarks, and distribution rights and agreements pertaining to Cannabis Consulting Inc., Robert Kane Partners, Kaneabis Consulting, Kaneabis Fund, Kaneabis Report, and Kaneabis Radio. In conjunction with the acquisitions, Robert Kane was promoted to V.P. of Investor Relations for the Company. Consideration paid for the CCI Group was 1,000,000 common shares to be issued to the principal, Mr. Robert Kane with a fair market value of $147,000, in addition to 250,000 free-trading common shares for services rendered with a fair market value of $22,500. The preliminary valuation of the CCI Group acquisition totaling $147,000 has been allocated to intangibles as at June 30, 2012.

On June 1, 2012, the Company signed a Share Purchase Agreement to acquire Goldsmith Health Care, Ltd. (GHC), a Nevada company. GHC operates Trimcare (www.trimcare.com), a health care facility which specializes in weight-loss programs, cosmetic procedures, nutritional supplements, hormone replacement therapy, along with other therapeutic treatments. The Company paid GHC $155,000 and 5,000,000 common shares, including $5,000 for the first month s license fees as consideration for the purchase. Total consideration, including the fair market value of shares issued for the acquisition ofGHC is $457,500. Other monthly consideration is due if additional locations are opened under the Trimcare brand. On July 31, 2012, Cannabis Science, Inc. filed a lawsuit against Ivan Goldsmith, M.D., Mona Dever-Goldsmith, and a Nevada professional corporation, Goldsmith Health Care, Ltd. (collectively, Defendants). Goldsmith Health Care, Ltd. currently operates under the trade name TrimCare. This action arises out of a failure of the parties to consummate a transaction which was memorialized through the executed share purchase agreement signed on June 1, 2012. Despite the Company s transferring of the necessary purchase price (a combination of $155,000 and 5,000,000 shares of stock in the Company), Dr. Ivan Goldsmith and his company refused to consummate the transaction.

The lawsuit seeks compensatory and consequential damages, as well as injunctive and declaratory relief. The lawsuit further seeks punitive damages against Mrs. Dever-Goldsmith for the intentional interference of a third party contract. (See Form 8-K file/film no. 000-28911 / 121008071; filed August 8, 2012).

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

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 US dollars. The Company s fiscal year end is December 31.

The operating results of GGECO University, Inc. (GGECO), acquired on February 9, 2012, for the period February 10, 2012 through June 30, 2012 were consolidated with the consolidated financial statements of the Company for the three and six months ended June 30, 2012. The Company will allocate intangibles acquired once the valuation and allocation of the $984,686 purchase price has been completed by an independent valuator, which is anticipated on or before September 30, 2012. The deemed value of shares issued and other consideration for the acquisition of GGECO have been included in intangibles as of June 30, 2012.

The operating results of Cannabis Consulting, Inc. (CCI), acquired on March 21, 2012, for the period March 21, 2012 through June 30, 2012 were consolidated with the consolidated financial statements of the Company for the three and six months ended June 30, 2012. The Company will allocate the $90,000 purchase price once an internal valuation has been completed on or before September 30, 2012. The deemed value of shares issued for the acquisition of the CCI have been included in intangibles as of June 30, 2012.

The operating results of Goldsmith Health Care, Ltd. (GHC), acquired on June 1, 2012, for the period June 1, 2012 through June 30, 2012 were not consolidated with the consolidated financial statements of the Company for the three and six months ended June 30, 2012. The Company will allocate intangibles acquired once the outcome of the pending lawsuit is determined and/or valuation and allocation of the $457,500 purchase price has been completed by an independent valuator, which is anticipated on or before December 31, 2012. The deemed value of shares issued and other consideration for the acquisition of GHC have been included in intangibles as of June 30, 2012.

C. Interim Financial Statements

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

D. 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.

E. Basic and Diluted Net Income (Loss) Per Share

Under ASC 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2012 to June 30, 2012 and from inception through June 30, 2012, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

F. 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.

G. 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.

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. The estimated fair value of 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. Technology License and Royalties

The Company's former principal business activity focused on oil and gas exploration. We have divested ourselves of all oil and gas properties and are investigating other business opportunities. We have no technology licenses or rights to any royalties for formerly owned oil and gas properties.

The Company is entitled to an annual license fee of $25,000 for the first year, $50,000 for the second year, $75,000 for the third year, $100,000 for the fourth year and $150,000 for the fifth and successive years, in addition to royalty license fees for 50% of all revenues, receipts, monies and the fair market value of any securities directly or indirectly received by Rockbrook, Inc. as a result of and pursuant to the license agreement entered into with the Company on July 30, 2010. As of June 30, 2012, the Company is re-assessing the license agreement with Rockbrook and how to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on.

J. Goodwill and Intangible Assets

Under ASC 350   Intangibles-Goodwill and Other , Intangible assets and goodwill, if any, will be calculated and allocated from intangibles designated in the acquisitions of GGECO, CCI and GHC, pursuant to independent and accredited valuator and/or internal valuation, where acquisitions were immaterial in nature. Finite life intangible will be tested for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. A preliminary allocation of all acquisition costs has been made to intangible assets under the aforementioned acquisitions.

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 is adopting 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 than 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.

K. 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.

L. Basic and Diluted Net Earnings (loss) per Share

Under ASC Topic 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 stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2010 to December 31, 2011, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

M. Development Stage Enterprise

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

N. Recent Accounting Pronouncements

During the year ended December 31, 2011 and through August 6, 2012, there were several new accounting pronouncements issued by the FASB the most recent of which was ASU update number 2012-02 Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. 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.

O. Reclassifications

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

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 $82,499,676 and had a stockholder s deficit of $1,143,623 at June 30, 2012.

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, 2012, the Company had minimal operations. 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 commitments or arrangements for other offerings in place, no guaranties that any such financings would be forthcoming, or as to the terms of any such financings. Any future financing may involve substantial dilution to existing investors. We had been relying on our common stock to pay third parties for services which has resulted substantial dilution to existing investors.

3. RELATED PARTY TRANSACTIONS

As at June 30, 2012, a total of $196,703 (December 31, 2011: $156,818) was due to Bogat Family Trust. The amounts due are non-interest bearing, unsecured and have no specified terms of repayment. This related party also performs management services to the Company under a Management Consulting Agreement signed on February 9, 2012.

On June 12, 2012, Raymond Dabney, managing partner, loaned $155,000 to the Company via a third-party payment to Goldsmith Health Care Ltd. s lawyer s trust account, as $150,000 cash consideration due and $5,000 in license fees for the first month under the Share Purchase Agreement entered into on June 1, 2012 (see Note 1). Mr. Dabney wired

$155,000 to GHC, which was $5,000 in excess of cash due under the SPA and he is now working the GHC s lawyer for the return of the excess funds. The $155,000 is due under a 12-month promissory note with no interest bearing and due upon demand.

On February 9, 2012, three management personnel signed five year management consulting agreements and each received consideration of a 5,000,000 free-trading common shares bonus and 36,833,333 144-restricted common shares in the Company, for a combined fair market value of $1,526.917 each.

For the three months ended June 30, 2012, $312,162 in management fees and $0 in bonuses were expensed in relation to the aforementioned management consulting and bonus agreements, respectively.

For the six months ended June 30, 2012, $505,785 in management fees and $562,500 in bonuses were expensed in relation to the aforementioned management consulting and bonus agreements, respectively.

4. NOTES PAYABLE

As at June 30, 2012, a total of $529,690 (December 31, 2011: $194,413) of notes payable are due to stockholders. A total of $155 (December 31, 2011: $9) is due to a stockholder under a convertible note that is non-interest bearing and has no specified terms of repayment. $529,535 (December 31, 2011: $194,404) is due to a stockholder under promissory notes that are non-interested bearing and are due 12 months from the date of issue and loan origination beginning on July 11, 2012 through June 26, 2013. This stockholder, to whom the promissory notes are due, also performs business and accounting services for the Company on a month-to-month basis.

5. EQUITY TRANSACTIONS

The Company is authorized to issue 850,000,000 shares of common stock with a par value of $.001 per share. These shares have full voting rights. There were 653,620,573 issued and outstanding as of June 30, 2012.

The Company is also authorized to issue 100,000,000 shares of common stock, Class A with a par value of $.001 per share. These shares have 10 votes per share. There were 0 issued and outstanding as of June 30, 2012.

The Company is also authorized to issue 1,000,000 shares of preferred stock. These shares have full voting rights of 1,000 votes per share. There were 999,999 issued and outstanding as of June 30, 2012.

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.

<u>During the three-months ended June 30, 2012, the Company issued the following common stock:</u>

On April 24, 2012, the Company issued 192,499,999 common shares, with a fair market value of $5,674,650, pursuant Management Consulting and Bonus Agreements with executives, a managing partner, and a consultant.

On April 24, 2012, the Company issued 25,000,000 common shares, with a fair market value of $935,000, to acquire GGECO University, Inc.

On May 25, 2012, the Company issued 1,000,000 common shares, with a fair market value of $147,000, to acquire Cannabis Consulting, Inc.

On May 29, 2012, the Company issued 37,200,000 common shares for settlement of $37,200 of stockholder debt, for a loss on settlement of $2,827,200, assigned from the stockholder notes payable originating on July 9, 2010, July 30, 2010, August 5, 2010, June 30, 2011, July 31, 2011, August 4, 2011 and August 31, 2011.

On June 26, 2012, the Company issued 3,250,000 common shares, with a fair market value of $448,500, pursuant Management Consulting Agreements with consultants.

On June 26, 2012, the Company issued 5,000,000 common shares, with a fair market value of $307,500, to acquire Goldsmith Health Care, Ltd.

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6. EQUIPMENT

	Cost	Accumulated Depreciation	NBV Jun 30, 2012
Equipment	$ 3,000	$ 2,333	$ 667
Computers	4,009	1,570	2,440
	$ 7,009	$ 3,753	$3,107`

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

7. INTANGIBLE ASSETS

Intellectual assets, primarily intellectual property	$ 126,000
Less accumulated amortization	
88,986	
$ 39,194	

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).

8. COMMITMENTS

The Company entered into a lease on June 26, 2012 for a facility in Henderson, NV. Lease commitments consist of $4,000 per month. The lease has been prepaid through December 2012, with additional payments of $4,000 commencing and due on January 1, 2013 through June 30, 2013. The lease was signed by an officer of the Company and guaranteed by a stockholder.

9. SUBSEQUENT EVENTS

On July 11, 2012, the Company entered into a management agreement with a consultant. Under the agreement the consultant received 750,000 common shares with a fair market value of $38,625 for services rendered over a 3-month term.

On July 20, 2012, the Company issued 30,000,000 common shares for settlement of $30,000 of stockholder debt, for a loss on settlement of $1,500,000, assigned from the stockholder notes payable originating on August 4, 2011, September 26, 2011 and September 30, 2011.

On July 27, 2012, the Company entered into a Joint Venture Operating Agreement (JV) with the Dupetit Natural Products GmbH (Dupetit) to provide world-wide exclusive products to the JV for sale. 90% of the net operating profits of the JV will be earned by Cannabis Science under the Agreement. The JV has over 40 hemp and cannabis based health, beauty and food products in production or development with products in over 350 stores across the European Union. On August 1, 2012, the Company issued 5,000,000 common shares, with a fair market value of $260,000, as consideration due to Dupetit under the JV.

On July 31, 2012, the Company issued 150,000 common shares, with a fair market value of $9,225, to a Senior Scientific Advisor for services rendered under a two-year service agreement entered into on June 1, 2012.

On July 31, 2012, the Company issued 1,000,000 common shares, with a fair market value of $55,000, to a consultant for services rendered under a two-year service agreement entered into on July 23, 2012.

On July 31, 2012, Cannabis Science, Inc. filed a lawsuit against Ivan Goldsmith, M.D., Mona Dever-Goldsmith, and a Nevada professional corporation, Goldsmith Health Care, Ltd. (collectively, Defendants). Goldsmith Health Care, Ltd. currently operates under the trade name TrimCare. This action arises out of a failure of the parties to consummate a transaction which was memorialized through the executed share purchase agreement signed on June 1, 2012. Despite the Company s transferring of the necessary purchase price (a combination of $150,000 and 5,000,000 shares of stock in the Company), including $5,000 for the first month s license fee, Dr. Ivan Goldsmith and his company refused to consummate the transaction. The lawsuit seeks compensatory and consequential damages, as well as injunctive and declaratory relief. The lawsuit further seeks punitive damages against Mrs. Dever-Goldsmith for the intentional interference of a third party contract.

On August 9, 2012, the Company entered into a software development agreement with a consultant. Under the agreement the consultant received 1,250,000 common shares with a fair market value of $60,250 for software applications developed.

All applicable expenses relating to the aforementioned share issuances under the agreements originating prior to the three months ended June 30, 2012 were accrued for the quarter; totaling $384 in management fee.

Common shares reconciliation table:

Issued and outstanding as of June 30, 2012	653,620,573
Subsequent events issuances	38,150,000
Issued and outstanding as of August 16, 2012	691,770,573

PART I

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

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

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

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

Overview of the Company s Business

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

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

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

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

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

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

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

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

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On May 8, 2009, the Company signed a Share Purchase Agreement to acquire Rockbrook, Inc., a Colorado medical cannabis dispensary. Due to regulatory changes that prevented a non-Colorado resident from owning a dispensary within the state, the Company signed a mutual termination agreement with Rockbrook on July 27, 2010 to retroactively cancel the acquisition.

On April 27, 2011, the Company was advised by the principal of Rockbrook, Inc. that the current licensing agreement was no longer in effect and that a new license agreement would be signed once new terms could be agreed upon. Despite this notification from Rockbrook, Inc., a legally signed license agreement is still in effect between the Company and Rockbrook. As of June 30, 2012, the Company is re-assessing the license agreement with Rockbrook and how to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on.

On February 9, 2012, the Company signed a license agreement with Apothecary Genetics Investments LLC. 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 consideration of this agreement, on January 1, 2012, the Company entered into a 25 year management agreement with Dr. Mohammad Afaneh to act Chief Operating Officer of Cannabis Science, Inc. Dr. Afaneh received 28,500,000 common shares valued at $299,250 under this agreement. In addition, on February 10, 2012, Dr. Afaneh signed a management bonus agreement where he received 5,000,000 common shares valued at $185,000 as a signing bonus for entering into his management agreement. In addition, on January 1, 2012, the Company entered into a 25 year management agreement with Bret Bogue to act as Director of Horticulture and head of research and development. Mr. Bogue received 28,500,000 common shares valued at $299,250 under this agreement. In addition, on February 10, 2012, Mr. Bogue signed a management bonus agreement where he received 5,000,000 common shares valued at $185,000 as a signing bonus for entering into his management agreement. These common shares were issued on April 24, 2012.

On February 9, 2012, the Company acquired GGECO University, Inc. (GGECO), an online video-based medical cannabis education system, offering courses dealing with medical cannabis law, the benefits of medical marijuana, cooking, horticulture, and bud tending. Following the university's name change to Cannabis Science University, the Company hopes to use this platform to educate the general public, patients, and even those who have already been involved in the medical cannabis industry on the medical benefits of cannabis, how it is grown, how to use it safely, and the many applications or ways to administer the medication. In consideration of this agreement, the Company issued 25,000,000 common shares with a fair market value of $935,000 to the principals of GGECO and assumed net liabilities of $24,686. The preliminary valuation of GGECO acquisition totaling $984,686 has been allocated to intangibles as at June 30, 2012. These common shares were issued on April 24, 2012.

On March 21, 2012, the Company acquired Cannabis Consulting Inc. (CCI Group), which consists of a group of businesses operated by Robert J. Kane, including: all contracted rights, properties, patents, trademarks, and distribution rights and agreements pertaining to Cannabis Consulting Inc., Robert Kane Partners, Kaneabis Consulting, Kaneabis Fund, Kaneabis Report, and Kaneabis Radio. In conjunction with the acquisitions, Robert Kane was promoted to V.P. of Investor Relations for the Company. Consideration paid for the CCI Group was 1,000,000 common shares to be issued to the principal, Mr. Robert Kane with a fair market value of $147,000, in addition to 250,000 free-trading common shares for services rendered with a fair market value of $25,000, which was settled for cash in lieu of issuing shares. The preliminary valuation of the CCI Group acquisition totaling $147,000 has been allocated to intangibles as at June 30, 2012. These shares were issued on May 25, 2012.

On June 1, 2012, the Company signed a Share Purchase Agreement to acquire Goldsmith Health Care, Ltd. (GHC), a Nevada company. GHC operates Trimcare (www.trimcare.com), a health care facility which specializes in weight-loss programs, cosmetic procedures, nutritional supplements, hormone replacement therapy, along with other therapeutic treatments. The Company paid GHC $155,000 and 5,000,000 common shares, including $5,000 for the first month s license fees as consideration for the purchase. Total consideration, including the fair market value of shares issued for the acquisition of GHC is $457,500. Other monthly consideration is due if additional locations are opened under the Trimcare brand. On July 31, 2012, Cannabis Science, Inc. filed a lawsuit against Ivan Goldsmith, M.D., Mona Dever-Goldsmith, and a Nevada professional corporation, Goldsmith Health Care, Ltd. (collectively, Defendants). Goldsmith Health Care, Ltd. currently operates under the trade name TrimCare. This action arises out of a failure of the parties to consummate a transaction which was memorialized through the executed share purchase agreement signed on June 1, 2012. Despite the Company s transferring of the necessary purchase price (a combination of $150,000 and 5,000,000 shares of stock in the Company), Dr. Ivan Goldsmith and his company refused to consummate the transaction. The lawsuit seeks compensatory and consequential damages, as well as injunctive and declaratory relief. The lawsuit further seeks punitive damages against Mrs. Dever-Goldsmith for the intentional interference of a third party contract.

Liquidity

The Company has a working capital deficit of $3,304,981 as of June 30, 2012 compared to a working capital deficit of $2,285,622 for the year ended December 31, 2011. There are insufficient liquid assets to meet current liabilities or sustain operations through 2012 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 continuing loans from stockholders to meet its obligations and sustain operations.

The Company has promissory note payment commitments of $529,690 due to stockholders over the next 12 months beginning on July 11, 2012 through June 30, 2013.

Contractual Obligations

The Company entered into a lease on June 26, 2012 for a facility in Henderson, NV. Lease commitments consist of $4,000 per month. The lease has been prepaid through December 2012, with additional payments of $4,000 commencing and due on January 1, 2013 through June 30, 2013. The lease was signed by an officer of the Company and guaranteed by a stockholder.

Capital Resources

The Company has capital resource requirements for supplies, laboratory and scientific equipment of approximately $625,000 over the next 12 months. These capital disbursements are dependent on management s successful raising of capital through private placements and lending facilities.

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Results of Operations

The Company had license revenues of $0 for the quarter ended June 30, 2012 compared to $62,044 for the comparative prior year quarter. This decrease resulted from the Company s license agreement with Rockbrook that was breached in 2011 and still under dispute into 2012.

The Company had interest revenue of $750 and consulting revenue $5,284 for the quarter ended June 30, 2012 compared to $0 relating revenues for the comparative prior year quarter.

Net loss on settlement of debt increased by $2,322,600 to $3,207,200 for the three months ended June 30, 2012 compared to $884,600 for the three months ended June 30, 2011. This increase is due to the Company settling debt through at decreased settlement prices of shares issued for settlement.

General and administrative expenses increased by $302,648 to $1,192,398 for the three months ended June 30, 2012 compared to $889,750 for the three months ended June 30, 2011. This increase is due to stock compensation expense pursuant to new management consulting and bonus agreements signed on January 1, 2012 through February 10, 2012.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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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

Management of the Company determined that legal action against Montana Pain Management and its principal shareholder for breach of a Non-Disclosure/Non-Circumvention Agreement that was entered into on June 11, 2010 is not beneficial to pursue at this time.

The Company is still working to resolve a dispute with the owner of Rockbrook over breaches of contractual obligations. As of June 30, 2012, the Company is re-assessing the license agreement with Rockbrook and how to resolve the dispute to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on. No legal action is being currently contemplated.

On July 31, 2012, Cannabis Science, Inc. filed a lawsuit against Ivan Goldsmith, M.D., Mona Dever-Goldsmith, and a Nevada professional corporation, Goldsmith Health Care, Ltd. (collectively, Defendants). Goldsmith Health Care, Ltd. currently operates under the trade name TrimCare. This action arises out of a failure of the parties to consummate a transaction which was memorialized through the executed share purchase agreement signed on June 1, 2012. Despite the Company s transferring of the necessary purchase price (a combination of $155,000 and 5,000,000 shares of stock in the Company), including $5,000 for the first month s license fee, Dr. Ivan Goldsmith and his company refused to consummate the transaction. The lawsuit seeks compensatory and consequential damages, as well as injunctive and declaratory relief. The lawsuit further seeks punitive damages against Mrs. Dever-Goldsmith for the intentional interference of a third party contract.

ITEM 1A. RISK FACTORS

Not applicable.

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

During the three months ended June 30, 2012, we have issued securities using exemptions available under the Securities Act of 1933:

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

On April 24, 2012, the Company issued 167,499,999 common shares, with a fair market value of $4,742,250, pursuant Management Consulting Agreements with executives, a managing partner, and a consultant.

On April 24, 2012, the Company issued 25,000,000 common shares, with a fair market value of $935,000, to acquire GGECO University, Inc.

On May 25, 2012, the Company issued 1,000,000 common shares, with a fair market value of $147,000, to acquire Cannabis Consulting, Inc.

On May 29, 2012, the Company issued 37,200,000 common shares for settlement of $37,200 of stockholder debt, for a loss on settlement of $2,827,200, assigned from the stockholder notes payable originating on July 9, 2010, July 30, 2010, August 5, 2010, June 30, 2011, July 31, 2011, August 4, 2011 and August 31, 2011.

On June 26, 2012, the Company issued 5,000,000 common shares, with a fair market value of $307,500, to acquire Goldsmith Health Care, Ltd.

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ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.	31.2Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith. 32.1Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.32.2Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

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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
20,
2012

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