

CANNABIS SCIENCE, INC.
Form 10-Q
November 19, 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 September 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)

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

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

Yes ☐ No ☒

At November 19, 2012, the Company had outstanding of 714,540,573 shares (net of 5,750,000 shares pending cancellation), of Common Stock, \$0.001 par value per share.

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Period Ended September 30, 2012

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ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Balance Sheets

September 30, 2012 and December 31, 2011

	September 30, 2012 (unaudited)	December 31, 2011
	\$	\$
ASSETS		
Current Assets		
Cash	9,492	2,197
Accounts receivable, related party	25,000	-
Advances receivable, related party	99,655	-
Receivable from legal settlement with Goldsmith (Note 10)	155,000	-
Inventory	60,258	-
Prepaid expenses and deposits	8,110	3,128
Loans receivable, related party	21,054	-
Total current assets	378,569	5,325
Deposits	4,000	6,666
Computer and Equipment, net of accumulated depreciation of \$4,358 and \$3,603	7,652	967
Intangibles, CCI acquisition (Note 1)	147,000	-
Intangibles, GGECO acquisition (Note 1)	960,861	-
Intangibles, Dupetit Natural Products (Note 1)	246,500	-
Intangibles, net of accumulated amortization of \$94,274 and \$78,412	33,907	47,588
TOTAL ASSETS	1,778,489	60,546

LIABILITIES AND STOCKHOLDERS' DEFICIT**Current Liabilities**

Accounts payable	450,987	476,590
Accrued expenses, primarily management fees (Note 4)	1,336,913	1,163,126
Advances from related parties (Note 4)	198,703	156,818
Management bonuses	300,000	300,000
Notes payable to related parties (Note 4)	155,000	-
Notes payable to stockholders	890,572	194,413
Total current liabilities and total liabilities	3,332,175	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
Class A common stock, \$0.001 par value		
Authorized 100,000,000 shares		
Issued and outstanding, none		
Common stock, \$0.001 par value		
Authorized 850,000,000 shares		
Issued and outstanding, 686,020,573 shares		
and 305,420,574, respectively	686,021	305,421
Prepaid consulting	(4,412,062)	(379,156)
Additional paid-in capital	86,804,228	68,379,003
Accumulated deficit	(84,632,873)	(70,536,669)
Total stockholders' deficit	(1,553,686)	(2,230,401)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	1,778,489	60,546

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

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CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO SEPTEMBER 30, 2012****(UNAUDITED)**

	For the three months ended September 30,		For the nine months ended September 30,		Period from January 27, 2005 (inception) to September 30, 2012
	2012	2011	2012	2011	
	\$	\$	\$	\$	\$
Revenue	1,848	368	33,568	73,702	123,675
Operating Expenses					
Investor relations	20,980	17,660	105,486	33,052	1,312,460
Professional fees	14,461	25,115	248,310	70,144	33,018,239
Technology license royalties	-	-	-	-	160,417
Impairment of oil and gas well lease	-	-	-	-	5,089,811
Net loss (gain) on settlement of liabilities*	1,530,000	873,700	10,826,800	3,245,400	15,697,137
Depreciation and Amortization	19,242	5,633	30,116	16,897	111,698
General and administrative	487,831	463,324	2,948,973	2,649,683	25,783,897
Total operating expenses	2,072,514	1,385,431	14,159,685	6,015,176	81,173,659
Net Operating Profit (Loss)	(2,070,666)	(1,385,063)	(14,126,117)	(5,941,474)	(81,049,984)
Other income (expense)	-	-	-	(337)	66,021
Interest income, net	750	-	1,500	-	1,500
Interest expense, net	(8,128)	-	(9,039)	-	(163,001)
Gain on settlement of debts	2,283	-	38,252	-	38,252
Beneficial conversion feature	-	-	-	-	(1,098,992)
Net Income (Loss) Before Income Taxes	(2,075,761)	(1,385,063)	(14,095,404)	(5,941,812)	(82,206,204)
State income taxes paid	-	-	(800)	-	(800)
Income tax provision	-	-	-	-	(2,035,065)
Income tax benefit	-	-	-	-	1,210,270
Net tax	-	-	(800)	-	(825,595)
Net Income (Loss) From Continuing Operations	(2,075,761)	(1,385,063)	(14,096,204)	(5,941,812)	(83,031,799)
Discontinued operations	-	-	-	-	(2,425,869)
Income tax benefit	-	-	-	-	824,795
	-	-	-	-	(1,601,074)

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Net Loss	(2,075,761)	(1,385,063)	(14,096,204)	(5,941,812)	(84,632,873)
-----------------	-------------	-------------	--------------	-------------	--------------

Net loss per common share

		\$	\$	\$
- Basic and diluted	\$ (0.00)	(0.01)	(0.03)	(0.04)

Weighted average number
of

common shares	554,242,735	141,346,215
outstanding	676,616,769	52,354,688

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

CANNABIS SCIENCE, INC.**(A DEVELOPMENT STAGE COMPANY)****CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY/(DEFICIT)****FOR THE PERIOD FROM JANUARY 27, 2005 (inception) to SEPTEMBER 30, 2012****(Unaudited)**

	Preferred		Common		Additional	Prepaid	Accumulated	Total
	Shares	Par	Shares	Par	Paid-in	Consulting	Deficit	
	\$	\$		\$	Capital	\$	\$	\$
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)

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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
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)
	-	-	1,328,198	1,328	45,380,217
				-	(53,071,501)
					(7,689,956)

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Bal, Dec 31, 2007								
	Additional							
	Preferred		Common		Paid-in	Prepaid	Accumulated	
	Shares	Par	Shares	Par	Capital	Consulting	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			2,522,495	2,523	197,552			200,075

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cash						
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	992,999	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,						
2019	999,999	1,000	29,744,774	29,745	52,997,760	-
Common					(54,043,945)	(1,015,440)
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)	-
Common						
stock						
issued						
for						
acquisition						
write-off	-	350,000	350	36,150	-	-
Common						
stock						
issued						
for						
debt	-	42,750,000	42,750	5,249,600	-	-
	-	-	-	-	2,208,178	-

Amortization of shares issued for services							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, 2019	999	1,000	1,170,574	101,171	62,091,628	(1,322,630)	(62,197,625)
Common stock issued for services	-	36,850,000	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, 2019	999	1,000	5,420,574	305,421	68,379,003	(379,156)	(70,536,669)
Common stock issued for services	-	202,149,999	202,150	6,340,175	(4,987,425)	-	1,554,900
Common stock	-	148,200,000	148,200	10,798,300	-	-	10,975,000

issued for debt								
Amortization of shares issued for services	-	-	-	-	-	954,519	-	954,519
Common stock issued for acquisitions CCI, Goldsmith and GGECO	-	31,000,000	31,000	1,358,500	-	-	-	1,389,500
Common stock issued for Dupetit Natural Products joint-venture (Note 1)	-	- 5,000,000	5,000	255,000	-	-	-	260,000
Shares issued for services pending cancellation		- (750,000)	(750)	(102,750)	-	-	-	(103,500)
Shares issued for acquisition pending cancellation		(5,000,000)	(5,000)	(302,500)	-	-	-	(307,500)
Net loss for the period	-	-	-	-	-	-	(14,096,204)	(14,096,204)
Bal, Sep 30, 2019	1,002,999	1,008,020,573	686,021	86,804,228	(4,412,062)	(84,632,873)		(1,553,686)

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

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Period from

January 27,

2005

For the nine months

(inception) to

ended September 30,

September 30,

2012

2011

2012

\$

\$

\$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss

(14,096,204

)

(5,941,811

)

(84,632,873)

Less:

Net (income) loss from discontinued operations

-

-

(1,601,074)

Total net loss

(14,096,204

)

(5,941,811

)

(83,031,799)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation

755

1,036

17,502

Amortization

29,281

15,861

9,578,036

Impairment on oil lease investments

-

-

	5,076,667
Debt issued for payment of expenses	
	85,633
	-
	85,633
Stock issued for services	
	2,405,919
	1,921,793
	39,341,502
Loss (gain) on settlement of debt	
	10,826,800
	3,245,400
	22,197,788
Loss (gain) on acquisition write-off	
	-
	20

	-
	36,500
Changes in operating assets and liabilities:	
Accounts receivable, related party	
)	(99,655
	-
	(101,742)
Loans receivable	
)	(21,054
	-
	(21,054)
Prepaid expenses and deposits	

	(2,316)
	14,881
	(12,110)
Inventory	
	(60,258
)	-
	(89,360)
Accounts payable	
	187,573
	102,090
	1,952,860
Deferred license revenue	
	-
	(73,334
)	

	-
Accrued expenses	
	173,787
	592,761
	582,858
Due to related parties	
	-
	-
	66,500
Accrued interest payable to affiliate	
	-
	-
	214,892
CASH FLOWS USED IN OPERATING ACTIVITIES	

FROM CONTINUING OPERATIONS

(569,659

)

(121,323

)

(4,105,147)

CASH FLOWS PROVIDED BY OPERATING

ACTIVITIES FROM DISCONTINUED OPERATIONS

-

898,927

NET CASH USED IN OPERATING ACTIVITIES

(569,659

)

(121,323

)

(3,206,220)

CASH FLOWS FROM INVESTING ACTIVITIES

Net liabilities acquired in GGECO

(25,861

)

-

(25,861)

Purchase of website

(2,180

)

-

(2,180)

Purchase of oil & gas leases

-

-

(30,000)

Purchase of property, plant & equipment

(7,440

)

-

(50,962)

CASH FLOWS USED IN INVESTING ACTIVITIES

(35,481

)

-

(109,003)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from convertible note-related party

-

-

951,342

Proceeds from advances from officer

9,000

-

103,500

Repayments on advances from officer

(7,000

)

(1,807

)

(81,000)

Proceeds from notes payable-stockholders

609,435

	79,146
	828,610
Repayments on notes payable-stockholders	
	-
	-
	(691)
Advances from related parties	
	1,000
	48,983
	1,164,093
Proceeds from sale of common stock	
	-
	-
	358,861
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	

	612,435
	126,323
	3,324,715
NET INCREASE IN CASH	
	7,295
	5,000
	9,492
CASH, BEGINNING OF PERIOD	
	2,197
	1,190
	-
CASH, END OF PERIOD	
	9,492
	6,190

9,492

SUPPLEMENTAL CASH FLOW INFORMATION:

Common stock issued for services

6,542,325

	-
	13,877,458
Net liabilities assumed with recapitalization	
	-
	-
	200,000
Divestiture of subsidiary to related party	
	-
	-
	794,340
Common stock issued for settlement of debt	
	10,975,000
	62,600
	24,708,050
Debt converted into common stock	

	148,200
	-
	677,391
Common stock issued for acquiring oil & gas leases	
	-
	-
	7,906,200
Common stock issued for assets	
	1,082,000
	-
	1,208,000
Common stock issued for products	
	260,000
	-
	260,000

Cancellation of shares issued for services

103,500

-

103,500

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

155,000

-

	150,000
Accounts payable paid through note payable, stockholder	
	163,332
	-
	175,023
Advance from related party paid to AGI (Note 4)	
	25,000
	-
	25,000
Accounts payable paid by related parties	
	39,934
	-
	80,017
Accounts payable paid through stockholder gift	
	50,000
	34

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

SEPTEMBER 30, 2012

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.

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.

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.

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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.

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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 September 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. The Company earned a \$25,000 license fee under the agreement for the period ended September 30, 2012.

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.

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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 \$960,861 has been allocated to intangibles as at September 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. \$25,000 was paid to Robert Kane in lieu of the 250,000 shares. The preliminary valuation of the CCI Group acquisition totaling \$147,000 has been allocated to intangibles as at September 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 of GHC is \$462,500. 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). The parties entered into a legal court settlement on October 10, 2012. Under the agreement, the Company agreed to drop all actions against the parties and the Company and Goldsmith agreed to unwind the acquisition transaction, including Dr. Goldsmith returning all monies and stock issued to him and GHC.

On October 15, 2012, the \$155,000 cash deposit and 5,000,000 common shares were repaid to the Company through via the trust account of Goldsmith's lawyer. In addition, Goldsmith returned the 750,000 common shares issued under his April 2012 consulting agreement and it was mutually agreed to terminate the contract. The operating results of Goldsmith Health Care, Ltd. (GHC), acquired on June 1, 2012, for the period June 1, 2012 through September 30, 2012 were not consolidated with the consolidated financial statements of the Company for the three and nine months ended September 30, 2012 as a result of the retroactive termination of the acquisition and unwinding of the

transaction.

On July 27, 2012, the Company entered into a Joint Venture Operating Agreement (JV) with Dupetit Natural Products GmbH (DNPG). Under the Agreement the Company is entitled to 90% of net operating profits of the JV. The Company issued 5,000,000 common shares with a fair market value of \$260,000 to the principal of DNPG as consideration for the provision of dozens of hemp and cannabis based products. DNPG currently distributes and sells products throughout Europe.

On September 10, 2012, the Company entered into a Joint Venture Operating Agreement (JV) with Wolastokwik NeGoot-Gook, Maliseet Nation at Tobique (WNGM) and George Kattar. Under the JV, the Company is entitled to 25% of net operating profits from the JV, which will be focused on establishing a clinical laboratory, medicine production facility and treatment center on WNGM provided land and facilities at the Maliseet Nation. As consideration for the JV, the Company is issuing 1 million common shares to WNGM and Mr. Kattar. The shares were issued on November 15, 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.

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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 September 30, 2012 were consolidated with the consolidated financial statements of the Company for the three and nine months ended September 30, 2012. The Company will allocate intangibles acquired once the valuation and allocation of the \$960,861 purchase price has been completed by an independent valuator, which is anticipated on or before November 30, 2012. The deemed value of shares issued and other consideration for the acquisition of GGECO have been included in intangibles as of September 30, 2012.

The operating results of Cannabis Consulting, Inc. (CCI), acquired on March 21, 2012, for the period March 21, 2012 through September 30, 2012 were consolidated with the consolidated financial statements of the Company for the three and nine months ended September 30, 2012. The Company will allocate the \$147,000 purchase price once an internal valuation has been completed on or before December 31, 2012. The deemed value of shares issued for the

acquisition of the CCI have been included in intangibles as of September 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 September 30, 2012 and from inception through September 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. Inventory

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

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I. 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.

J. 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 September 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.

K. Goodwill and Intangible Assets

Under ASC Topic 350 Intangibles-Goodwill and Other, Intangible assets and goodwill, if any, will be calculated and allocated from intangibles designated in the acquisitions of GGECO, and CCI, 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.

L. 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.

M. 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 July 1, 2012 to September 30, 2012 and January 1, 2012 to September 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.

N. 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.

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O. 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 2012-07 Entertainment Films (Topic 926): Accounting for Fair Value Information That Arises after the Measurement Date and Its Inclusion in the Impairment Analysis of Unamortized Film Costs (a consensus of the FASB Emerging Issues Task Force). Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's financial statements.

P. Reclassifications

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

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 \$84,641,820 and had a stockholder's deficit of \$1,553,686 at September 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 September 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. INVENTORIES

As of September 30, 2012 inventory consisted of the following:	2012
Raw materials	60,258
Work in process	
Finished goods	
Total	60,258

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4. RELATED PARTY TRANSACTIONS

As at September 30, 2012, a total of \$196,703 (December 31, 2011: \$156,818) was due to Bogat Family Trust, with the Company's Managing Consultant as trustee, and a \$2,000 (December 31, 2011: \$0) officer advance was due to the Company's CEO. 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 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 \$1,568,750 each.

On February 9, 2012, the Company entered into a licensing agreement with Apothecary Genetics Investments LLC. The Company's COO and VP of Horticulture are managers of Apothecary. Apothecary owes a license fee of \$25,000 to the Company and other advances receivable of \$85,318, totalling \$110,318 as of September 30, 2012 in addition to \$21,054 in loans receivable. The advances and loans are to be offset against royalties due to the Company under the license agreement.

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 October 10, 2012 the Company and Dr. Goldsmith reached a settlement. The settlement was filed in a court stipulation and order on October 10, 2012, pursuant to which Dr. Goldsmith and GHC were to return the monies and unwind the acquisition with the Company along with ceasing all legal claims or actions between the parties. Subsequent to the quarter end on October 15, 2012, Raymond Dabney was repaid the \$155,000 and his promissory note was deemed paid in full by the Company.

On June 26, 2012, the Company acquired the domain name and rights to www.CannabisScience.com, from the Company's CFO for \$2,180.

For the three months ended September 30, 2012, \$201,662 in management fees and \$0 in bonuses were expensed in

relation to the aforementioned management consulting and bonus agreements, respectively.

For the nine months ended September 30, 2012, \$517,780 in management fees and \$0 in bonuses were expensed in relation to the aforementioned management consulting and bonus agreements, respectively.

5. NOTES PAYABLE

As at September 30, 2012, a total of \$890,417 (December 31, 2011: \$194,413) of notes payable are due to stockholders that are non-interested bearing and are due 12 months from the date of issue and loan origination beginning on October 11, 2012 through September 13, 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. 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.

6. 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 686,020,573 issued and outstanding as of September 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 September 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 September 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.

During the three-months ended September 30, 2012, the Company issued the following common stock:

On July 11, 2012, the Company entered into a management agreement with a consultant. Under the agreement the consultant received 750,000 common shares, issued on July 16, 2012, 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 \$1,530,000, assigned from the stockholder notes payable originating on August 4, 2011, September 26, 2011 and September 30, 2011.

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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 for providing products outlined in the JV agreement.

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 August 15, 2012, the Company issued 1,250,000 common shares with a fair market value of \$60,250, to a consultant for services rendered under a 6-month software applications development agreement entered into on August 9, 2012.

Stock Options:

The following options were issued to the Company's V.P of investor relations for services rendered:

- (i) the option to purchase 100,000 common shares at ten cents (\$0.10) per share;
- (ii) the option to purchase 100,000 common shares at ten cents (\$0.20) per share;

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

A summary of the status of the Company's option grants as of September 30, 2012 and the changes during the period then ended is presented below:

	Shares
	Weighted-Average Exercise Price
Outstanding December 31, 2011	
	1,700,000
\$	
	0.41
Granted	
Exercised	
Expired	
Outstanding September 30, 2012	

1,700,000

\$

0.41

Options exercisable at September 30, 2012

The weighted average fair value at date of grant for options during nine months ended September 30, 2012 was estimated using the Black-Scholes option valuation model with the following:

Average
expected
life in
years

2

Average
risk-free
interest
rate

2.00

%

Average
volatility

75

%

Dividend
yield

0

%

7. EQUIPMENT

			Accumulated
	Cost	Depreciation	NBV Sep 30, 2012
Equipment	\$ 3,000	\$ 2,483	\$ 517
Software	5,000	-	5,000
Computers	4,010	1,875	2,135
	<u>\$ 12,010</u>	<u>\$ 4,358</u>	<u>\$ 7,652</u>

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, 2 years for software, and 5 years for equipment.

8. INTANGIBLE ASSETS

	2012	2011
Intellectual assets, primarily intellectual property	\$ 128,180	\$ 126,000
Less accumulated amortization	<u>94,273</u>	<u>78,412</u>
	<u>\$ 33,907</u>	<u>\$ 47,588</u>

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

9. COMMITMENTS

A stockholder of the Company secured a lease on behalf of the Company 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 September 30, 2013. The lease was signed by an officer of the Company and guaranteed by a stockholder.

10. SUBSEQUENT EVENTS

In relation to the lawsuit filed on July 31, 2012 by Cannabis Science, Inc. against Ivan Goldsmith, M.D., Mona Dever-Goldsmith, and a Nevada professional corporation, Goldsmith Health Care, Ltd. (collectively, Defendants), the Company and Defendants entered into an out of court settlement on August 30, 2012. A court stipulation and order was finalized and filed on October 10, 2012 that defined terms of the settlement acceptable by the court (See exhibit). Under the terms of the settlement, in accordance with the Stipulation and Order, the parties agreed to drop all actions and the Company and Goldsmith agreed to unwind the acquisition transaction, including Dr. Goldsmith returning all monies and stock issued to him and GHC. Goldsmith Health Care, Ltd. currently operates under the trade name TrimCare.

On October 15, 2012, the \$155,000 cash deposit and 5,000,000 common shares were repaid to the Company through via the trust account of Goldsmith's lawyer. In addition, Goldsmith returned the 750,000 common shares issued under his April 2012 consulting agreement and it was mutually agreed to retroactively terminate his contract.

On October 16, 2012, the Company issued 20,000 common shares due as a bonus under a September 16, 2011 consulting agreement.

On October 19, 2012, the Company issued 7,500,000 common shares for settlement of \$7,500 of stockholder debt, for a loss on settlement of \$315,000, assigned from the stockholder notes payable originating on July 1, 2011.

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

Common shares reconciliation table:

Issued and outstanding as of September 30, 2012	691,770,573
Pending stock cancellations	(5,750,000)
<u>Subsequent events issuances</u>	<u>7,520,000</u>
<u>Issued and outstanding as of November 14, 2012</u>	<u>693,540,573</u>

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.

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

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

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

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

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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 September 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. The Company earned a \$25,000 license fee under the agreement for the period ended September 30, 2012.

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 September 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 September 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. The Company and Defendants entered into a legal court settlement on October 10, 2012. Under the settlement, the Company agreed to drop all actions against the parties and the Company and Goldsmith agreed to unwind the acquisition transaction, including Dr. Goldsmith returning all monies and stock issued to him and GHC.

On July 27, 2012, the Company entered into a Joint Venture Operating Agreement (JV) with Dupetit Natural Products GmbH (DNPG). Under the Agreement the Company is entitled to 90% of net operating profits of the JV. The Company issued 5,000,000 common shares with a fair market value of \$260,000 to the principal of DNPG as consideration for the provision of dozens of hemp and cannabis based products. DNPG currently distributes and sells products throughout Europe.

On September 10, 2012, the Company entered into a Joint Venture Operating Agreement (JV) with Wolastokwik NeGoot-Gook, Maliseet Nation at Tobique (WNGM) and George Kattar. Under the JV, the Company is entitled to 25% of net operating profits from the JV, which will be focused on establishing a clinical laboratory, medicine production facility and treatment center on WNGM provided land and facilities at the Maliseet Nation. As consideration for the JV, the Company is issuing 1 million common shares to WNGM and Mr. Kattar. The shares were issued on November 15, 2012.

Liquidity

The Company has a working capital deficit of \$2,707,106 as of September 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 \$870,177 due to stockholders over the next 12 months beginning on July 11, 2012 through September 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 September 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.

Results of Operations

The Company had license revenues of \$0 for the quarter ended September 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 course and consulting revenue of \$1,848 for the three months ended September 30, 2012 compared to \$0 for the prior year comparable quarter. This increase is due to the acquisitions of GGEKO University and CCI in the current fiscal year.

The Company had interest revenue of \$750 for the quarter ended September 30, 2012 compared to \$1,500 in relating revenues for the comparative prior year quarter.

Net loss on settlement of debt increased by \$656,300 to \$1,530,000 for the three months ended September 30, 2012 compared to \$873,700 for the three months ended September 30, 2011. This increase is due to the Company settling an increased amount of debt through the issuance of common shares.

General and administrative expenses increased by \$96,954 to \$560,278 for the three months ended September 30, 2012 compared to \$463,324 for the three months ended September 30, 2011. This increase is due to stock compensation expense pursuant to new management consulting and bonus agreements signed on January 1, 2012 through August 9, 2012.

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

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

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 September 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. The Company and Defendants entered an out of court settlement on August 30, 2012. A court stipulation and order was finalized and filed on October 10, 2012 that defined terms of the settlement acceptable by the court (See exhibit). Under the terms of the settlement, in accordance with the Stipulation and Order, the parties agreed to drop all actions and the Company and Goldsmith agreed to unwind the acquisition transaction, including Dr. Goldsmith returning all monies and stock issued to him and GHC. All shares and monies were returned and repaid as of October 15, 2012.

ITEM 1A. RISK FACTORS

Not applicable.

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

During the three months ended September 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 July 11, 2012, the Company entered into a management agreement with a consultant. Under the agreement the consultant received 750,000 common shares, issued on July 16, 2012, 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 \$1,530,000, 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 August 15, 2012, the Company issued 1,250,000 common shares with a fair market value of \$60,250, to a consultant for services rendered under a 6-month software applications development agreement entered into on August 9, 2012.

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

10.1	Joint Venture Agreements	10.2Debt Settlement Agreements10.3Consulting Agreements31.1Certification 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.99.1Court Stipulation and Order
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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:
November
19, 2012