

CANNABIS SCIENCE, INC.  
Form 10-Q  
May 13, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended March 31, 2011.

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)

2422 S. Trenton Way, Unit H, Denver, CO 80231

(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 May 13, 2011, the Company had outstanding of 134,070,574 shares of Common Stock, \$0.001 par value per share.

**CANNABIS SCIENCE, INC.**

**FORM 10-Q**

For the Period Ended March 31, 2011

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**PART 1 FINANCIAL INFORMATION.**

**ITEM 1. FINANCIAL STATEMENTS**

**CANNABIS SCIENCE, INC.**

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(A Development Stage Company)

Balance Sheets

March 31, 2011 and December 31, 2010

March 31, 2011

(Unaudited)

December 31, 2010

\$

\$

**ASSETS**

Current Assets

Cash

10,461

1,190

Prepaid expenses

3,128

18,009

Total current assets

	13,589
	19,199
Deposits	
	6,666
	6,666
Computer and Equipment, net of accumulated	
depreciation of \$2,539 and \$2,389	
	2,031
	2,181
Intangibles, net of accumulated depreciation	
of \$62,551 and \$57,264	
	63,449
	68,736
<b>TOTAL ASSETS</b>	
	85,735
	96,782



**LIABILITIES AND STOCKHOLDERS' DEFICIT**

**Current Liabilities**

Accounts payable

416,649

393,753

Accrued expenses

882,500

675,000

Advances from related parties

138,658

107,835

Advances from officers

1,807

1,807

Notes payable to stockholders

186,109

171,509

Deferred license revenue

62,044

73,334

**Total current liabilities and total liabilities**

1,687,767

1,423,238

**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, 134,070,574 shares and

101,170,574, respectively

	134,071
	101,171
Prepaid consulting	(997,428)
	(1,322,630)
Additional paid-in capital	64,247,728
	62,091,628
Accumulated deficit	(64,987,403)
	(62,197,625)
<b>Total stockholders' deficit</b>	(1,602,032)
	(1,326,456)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	85,735
	96,782

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

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**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010

AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO MARCH 31, 2011

(UNAUDITED)

For the three months ended

Period from January 27, 2005 (inception) to

March 31,

March 31,

	2011	2010	2011
	\$	\$	\$
<b>Revenue</b>			
	11,290	-	27,695
Operating Expenses			
Investor relations	-		35,500

	1,120,792
Professional fees	
	11,380
	1,065
	32,662,560
Technology license royalties	
	-
	-
	160,417
Impairment of oil and gas well lease	
	-
	-
	5,089,811
Net loss (gain) on settlement of liabilities	
	1,487,100
	470,000
	1,227,637
Depreciation and Amortization	
	5,437
	10,621
	64,657
General and administrative	
	1,296,609
	104,925
	21,076,469
Total operating expenses	

	2,800,526
	622,111
	61,402,343
Net Operating Profit (Loss)	
	(2,789,236)
	(622,111)
	(61,374,648)
Other income (expense)	
	-
	-
	66,021
Interest expense, net	
	(542)
	-
	(153,916)
Beneficial conversion feature	
	-
	-
	(1,098,992)
Net Income (Loss) Before Income Taxes	
	(2,789,778)
	(622,111)

	(62,561,535)
Income tax provision	-
	-
	(2,035,065)
Income tax benefit	-
	-
	1,210,270
Net tax	-
	-
	(824,795)
Net Income (Loss) From Continuing	
Operations	(2,789,778)
	(622,111)
	(63,386,330)
Discontinued operations	



	-
	-
	(2,425,868)
Income tax benefit	
	-
	-
	824,795
<b>Net Loss</b>	
	(2,789,778)
	(622,111)
	(64,987,403)
Net loss per common share	
- Basic and diluted	\$ (0.02)
	\$ (0.02)

Weighted average number of

common shares outstanding

112,961,685

31,820,714

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

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**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF SHAREHOLDERS EQUITY/(DEFICIT)

FOR THE PERIOD FROM JANUARY 27, 2005 (inception) to MARCH 31, 2011

(Unaudited)

Additional

Preferred

Common

Paid-in

Prepaid

Accum.

Shares

Par

Shares

Par

Capital

Consulting

Deficit

Total

\$

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\$

\$

\$

\$

\$

Bal, Jan 27, 2005

-

-

-

-

-

-

-

Founder's stock issued

83,800

84

(84)

-

Stock issued for debt





	(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



(387,500)

140,848

Shares issued for

debt

350,000

350

349,650

350,000

Amortization of

beneficial conversion

feature

1,066,657

1,066,657

Amortization of shares

issued for services

8,021,250

8,021,250

Shares issued for

properties

	500,000
	500
	4,999,500
	5,000,000
Net loss for the year	
	(15,007,117)
	( 15,007,117)
Bal, Dec 31, 2007	
	-
	-
	1,328,198
	1,328
	45,380,217
	-
	(53,071,501)
	(7,689,956)

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

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	Preferred Shares	Par Shares	Common Par	Additional Paid-in Capital	Prepaid Consulting	Accum. Deficit	Total
	\$	\$	\$	\$	\$	\$	\$
Bal, Dec 31, 2007	-	1,328,198	1,328	45,380,217	-	(53,071,501)	(7,689,956)
Amortization of beneficial conversion feature				32,335			32,335
Cancellation and amortization of shares		(919)	(1)	1			-
Shares issued for cash		10,000	10	19,990			20,000
Shares issued for debt		990,000	990	98,010			99,000
Shares issued for acquisition		10,000,000	10,000	2,490,000			2,500,000
Shares issued for service		270,000	270	128,230			128,500
Net profit for the year						3,559,617	3,559,617
Bal, Dec 31, 2008	-	12,597,279	12,597	48,148,783	-	(49,511,884)	(1,350,504)
Shares issued for cash		2,522,495	2,523	197,552			200,075
Shares issued for service		8,855,000	8,855	2,507,195			2,516,050
Cancellation of shares		(10,000)	(10)	10			-
Shares issued for debt		3,680,000	3,680	2,020,320			2,024,000
Shares issued for service		999,999	1,000				1,000
Shares issued for assets		2,100,000	2,100	123,900			126,000
Net loss for the year						(4,532,061)	(4,532,061)
Bal, Dec 31, 2009	999,999	12,904,774	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

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Common shares pending cancelation	-	400,000	400	(400)	-	-
Net loss for the period	-	-	-	-	-	(8,153,680)
Bal, Dec 31, 2010	999,999	100,000	107,574	101,171	62,091,628	(1,322,630)
Common stock issued for services	-	15,000,000	15,000	669,000	(669,000)	-
Common stock issued for debt	-	17,900,000	17,900	1,487,100	-	-
Amortization of shares issued for services	-	-	-	-	-	994,202
Net loss for the period	-	-	-	-	-	(2,789,778)
Bal, March 31, 2011	999,999	134,000	107,574	134,071	64,247,728	(997,428)

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

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**CANNABIS SCIENCE, INC.**

(A Development Stage Company)

**STATEMENTS OF CASH FLOWS**

(Unaudited)

Period from



January 27,

2005

For the three months

(inception) to

ended March 31,

March 31,

2011

2010

2011

\$

\$

\$

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net loss

(2,789,778

(622,111

(64,988,540)

Plus:

Net income from discontinued operations

-

-

1,601,073

Total net loss

(2,789,778

(622,111

(63,387,467)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation

150

270

15,683

Amortization

5,287

34

	10,351
	9532,994
Impairment on oil lease investments	-
	-
	5,076,667
Stock issued for services	1,009,202
	58,000
	35,806,888
Loss (gain) on settlement of debt	1,487,100
	470,000
	7,728,288
Loss (gain) on acquisition write-off	-
	-
	36,500
Changes in operating assets and liabilities:	
Accounts receivable	-
	-
	(2,087)
	35

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Prepaid expenses and deposits

14,881

-

(9,794)

Inventory

-

-

(29,102)

Accounts payable

22,896

1,065

1,552,434

Deferred license revenue

(11,290)

-

62,044

Accrued expenses

207,500

(20,000)

(171,555)

Due to related parties

-

(12,286)

66,500

Accrued interest payable to affiliate

-

-  
214,892

**CASH FLOWS USED IN OPERATING ACTIVITIES**

**FROM CONTINUING OPERATIONS**

(54,052)  
(114,711)  
(3,505,979)

**CASH FLOWS PROVIDED BY OPERATING**

**ACTIVITIES FROM DISCONTINUED OPERATIONS**

-  
-  
898,927

**NET CASH USED IN OPERATING ACTIVITIES**

(54,052)  
(114,711)  
(2,607,052)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of oil & gas leases

-  
-  
(30,000)

Purchase of property, plant & equipment

-  
-  
(43,522)

**CASH FLOWS USED IN INVESTING ACTIVITIES**

-  
-  
(73,522)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Proceeds from convertible note-related party

-  
-  
951,342

Proceeds from advances from officer

-  
-  
94,307

Repayments on advances from officer

-  
38

	-
	(72,000)
Proceeds from notes payable-stockholders	32,500
	-
	174,200
Repayments on notes payable-stockholders	-
	-
	(691)
Advances from related parties	30,823
	-
	1,185,016
Proceeds from sale of common stock	-
	123,286
	358,861
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>	63,323
	123,286
	2,691,035
<b>NET INCREASE IN CASH</b>	9,271
	8,575
	10,461
	39

**CASH, BEGINNING OF PERIOD**

1,190

243

-

**CASH, END OF PERIOD**

10,461

8,818

10,461

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Related party note payable

-



	-
	250,000
Net liabilities assumed with recapitalization	-
	275,000
	475,000
Divestiture of subsidiary to related party	-
	-
	544,340
Common stock issued for debt	17,900
	-
	1,166,900
Common stock issued for acquiring	
oil and gas leases	-
	-
	7,906,200
Issuance of common stock for assets	-
	-
	135,000
	41

Issuance of preferred stock for services

-

-

1,000

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

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**CANNABIS SCIENCE, INC.**

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*A. Organization and General Description of Business*

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Cannabis Science, Inc. ( We or the Company ), was incorporated under the laws of the State of Colorado, on February 29, 1996, as Patriot Holdings, Inc. On August 26, 1999, the Company changed its name to National Healthcare Technology, Inc. On June 6, 2007, the Company changed its name from National Healthcare Technology, Inc., to Brighton Oil & Gas, Inc., and converted to a Nevada corporation. On March 25, 2008 the Company changed its name to Gulf Onshore, Inc.

On March 30, 2009, the Company acquired certain assets used to conduct a cannabis research and development business from Steven W. Kubby and Cannex Therapeutics, LLC, ( Cannex ). . The asset purchase agreement included all of Cannex and Kubby s intellectual property rights, formulas, patents, trademarks, client base, hardware and software, including the website [www.phytiva.com](http://www.phytiva.com).

On April 7, 2009, the Company changed its name to Cannabis Science, Inc., reflecting its new business mission.

The Company is in the business of developing pharmaceutical grade medical cannabis (marijuana) products. We are working with scientific experts on phytocannabinoid science targeting critical illnesses; adhering to scientific methodologies to develop, produce, and commercialize phytocannabinoid-based pharmaceutical products. In sum, the Company is 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. website is [www.cannabisscience.com](http://www.cannabisscience.com).

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

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

On May 8, 2010, the Company entered into a share purchase agreement to acquire Rockbrook, Inc., a Colorado dispensary in exchange for 400,000 restricted common shares in the Company. Due to a change in Colorado legislation preventing outside residents from owning a dispensary within the state, the Company and the sole

Rockbrook shareholder agreed to and entered into a Mutual Termination Agreement on July 27, 2010 to retroactively cancel the acquisition.

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

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

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. The Company will work with Rockbrook to negotiate new license agreement terms, if it is in the best interest of shareholders of the Company. Alternatively, the Company will legally enforce the current license agreement if a revised and mutually beneficial license agreement cannot be reached.

#### *B. Basis of Presentation*

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

#### *C. Interim Financial Statement*

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

*D. Use of Estimates*

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

*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, 2010 to March 31, 2011 and from inception through March 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.

*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. Fair Value Measurements*

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

#### *H. Income Taxes*

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

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

#### *I. Stock-Based Compensation*

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

#### *J. Development Stage Enterprise*

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

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*K. Recent Accounting Pronouncements*

During the year ended December 31, 2010 and through May 13, 2011, there were several new accounting pronouncements issued by the FASB the most recent of which was Accounting Standards Update 2011-03. 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.

*L. Reclassifications*

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

**2. GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported an accumulated deficit of \$64,988,539 and had a stockholder's deficit of \$1,602,032 at March 31, 2011.

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 March 31, 2011, the Company had minimal operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We anticipate that we will have to raise additional capital to fund operations over the next 12 months. To the extent that we are required to raise additional funds to acquire research and growing facilities, and to cover costs of operations, we intend to do so through additional public or private offerings of debt or equity securities. There are no

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

### **3. RELATED PARTY TRANSACTIONS**

As at March 31, 2011, a total of \$138,658 (December 31, 2010: \$107,835) was due to a related parties. 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 July 1, 2010.

### **4. NOTES PAYABLE**

As at March 31, 2011, a total of \$186,109 (December 31, 2010: \$171,509) of notes payable are due to stockholders.

A total of \$9 is due to a stockholder under a convertible note that is non-interest bearing and has no specified terms of repayment. \$186,100 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 June 6, 2011 through March 28, 2012. This stockholder, to whom promissory notes are due, also performs business and accounting services for the Company on a month-to-month basis.

### **5. COMMON STOCK**

During the three-months ended March 31, 2011, the Company issued the following common stock:

On January 28, 2011, the Company issued 10,000,000 common shares of S-8 stock to several consultants for services to be performed for the period February 1, 2011 through January 31, 2012. The shares had a fair market value of \$0.04 per share.

On February 2, 2011, the Company issued 3,000,000 common shares to two consultants for services to be performed for the period February 1, 2011 through January 31, 2012. The shares had a fair market value of \$0.04 per share.



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On March 3, 2011, the Company issued 2,000,000 common shares to a consultant for services to be performed for the period March 1, 2011 through August 31, 2011. The shares had a fair market value of \$0.082 per share.

The aforementioned shares were registered on Form S-8 with the SEC on January 25, 2011, file no. 333-171850.

On March 10, 2011, the Company issued 12,600,000 common shares for settlement of \$12,600 of shareholder debt assigned from the shareholder note payable originating on July 1, 2010 and owing at December 31, 2010.

On March 30, 2011, the Company issued 5,300,000 common shares for settlement of \$5,300 of shareholder debt assigned from the shareholder note payable originating on March 30, 2010 and owing at December 31, 2010.

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**6. EQUIPMENT**

Equipment

\$ 1,417

Computer

614

\$ 2,031

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

**7. INTANGIBLE ASSETS**

Intellectual assets, primarily intellectual property                      \$ 126,000

Less accumulated amortization

62,551

\$ 63,449

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. SUBSEQUENT EVENTS**

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. The Company will work with Rockbrook to negotiate new license agreement terms, if it is in the best interest of shareholders of the Company. Alternatively, the Company will legally enforce the current license agreement if a revised and mutually beneficial license agreement cannot be reached.

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## **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 March 31 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](http://www.phytiva.com). The Company and its largest shareholder, K & D Equities, Inc., exchanged a total of 10,600,000 shares of common stock for the assets of Cannex; the Company issued 2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed. Please see Note 6 to the financial statements.

As part of the Agreement, on April 1, 2009, the Company appointed Mr. Kubby as President and CEO, Richard Cowan as Director and CFO, and Robert Melamede Ph. D., as Director and Chief Science Officer. Each of them was also appointed as a director. All of the Company's current directors then resigned. On April 7, 2010, the Company changed its name to Cannabis Science, Inc., and obtained a new CUSIP number. Its shares now trade under the symbol CBIS.OB. A Form 8-K was timely filed, with a copy of the Asset Acquisition Agreement and Board Resolution ratifying the Agreement provided as exhibits thereto.

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

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

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.

### Liquidity

The Company has a working capital deficit of \$1,674,178 as of March 31, 2011 compared to a working capital deficit of \$1,404,039 for the year ended December 31, 2010. There are insufficient liquid assets to meet current liabilities or sustain operations through 2011 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 has promissory note payment commitments of \$186,100 due to a stockholder over the next 12 months beginning on June 6, 2011 through March 28, 2012.

### Contractual Obligations

	Payments due by period				
	Total	< 1 Year	1-3 Years	3-5Years	> 5 Years
Operating Lease	\$255,369	\$41,207	\$99,660	\$114,502	\$0

### Capital Resources

The Company has capital resource requirements for laboratory and scientific equipment of approximately \$325,000 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 \$11,290 for the quarter ended March 31, 2011 compared to \$0 for the comparative prior year quarter. This increase resulted from the Company's license agreement with Rockbrook signed on August 18, 2010 and the associated recognition of license fees paid by Rockbrook to the Company for the distribution of its products. We are currently negotiating new license agreement terms with Rockbrook to remove the exclusivity clause and permit the Company to seek other licensees to market its products and add additional license revenues. The new agreement is expected to be signed on or before May 20, 2011.

Net loss on settlement of liabilities increased by \$1,017,100 to \$1,487,100 for the three months ended March 31, 2011 compared to \$470,000 for the three months ended March 31, 2010. This increase is due to the Company settling debt through at decreased settlement prices.

General and administrative expenses increased by \$1,191,684 to \$1,296,609 for the three months ended March 31, 2011 compared to \$104,925 for the three months ended March 31, 2010. This increase is due to increased compensation from new management consulting agreements signed on July 1, 2010 and increased management and consulting expense from S-8 stock issued to consultants for services rendered.

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 period covered by this report that have materially affected, or are likely to materially affect the Company's internal controls over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

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

Not applicable.

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

During the three months ended March 31, 2011, 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 March 10, 2011, the Company issued 12,600,000 common shares for settlement of \$12,600 of shareholder debt assigned from the shareholder note payable originating on July 1, 2010 and owing at December 31, 2010.

On March 30, 2011, the Company issued 5,300,000 common shares for settlement of \$5,300 of shareholder debt assigned from the shareholder note payable originating on March 30, 2010 and owing at December 31, 2010.

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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.

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.

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

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

**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.**

May 12, 2011

Date

/s/ Dr. Robert Melamede, President

Dr. Robert Melamede, President and  
Chief Executive Officer

May 12, 2011

Date

/s/ Richard Cowan

Richard Cowan, Chief Financial Officer