

CANNABIS SCIENCE, INC.
Form 10-Q
August 23, 2013

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 March 31, 2013.

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)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [] No

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

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

Large accelerated filer () Accelerated filer ()

Non-accelerated filer () Smaller reporting company (X)

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

Number of common shares outstanding at August 15, 2013: 710,423,906

Number of Class A common shares outstanding at August 15, 2013: 0

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Period Ended March 31, 2013

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PART 1 FINANCIAL INFORMATION.

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

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Consolidated Balance Sheets as at March 31, 2013 and December 31, 2012

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Consolidated Statements of Operations for the three months ended March 31, 2013 and 2012 and for the period January 27, 2005 (Inception) to March 31, 2013

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Consolidated Statements of Shareholders' Equity/(Deficit) for the Period from January 27, 2005 (inception) to March 31, 2013

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Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 and for the period January 27, 2005 (Inception) to March 31, 2013

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Notes to Consolidated Financial Statements

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Balance Sheets

March 31, 2013 and December 31, 2012

March 31,

2013

December 31,

(unaudited)

\$

2012

\$

ASSETS

Current Assets

Cash

8,461

23,560

Accounts receivable, related party

-

25,000

Prepaid expenses and deposits

3,203

110

Advances receivable, related party

131,098

116,943

Loans receivable, related party

11,964

22,627

Marketable securities (Note 3)

637,500

525,000

Total current assets

792,226

713,240

Computer and Equipment, net of accumulated

depreciation of \$4,358 and \$7,327 (Note 8)

5,958

16,412

Goodwill (Note 1)

66,274

44,274

Intangibles, CCI (Note 1)

-

147,000

Intangibles, net of accumulated amortization (Note 9)

270,138

186,538

TOTAL ASSETS

1,134,596

1,107,464

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities

Accounts payable

128,230

158,458

Accrued expenses, primarily management fees (Note 5)

1,226,179

1,314,050

Advances from related parties (Note 5)

	233,103
	196,703
Management bonuses	
	300,000
	300,000
Notes payable to stockholders (Note 6)	
	1,411,718
	1,307,218
Total current liabilities and total liabilities	
	3,299,230
	3,276,429
Stockholders' Deficit	
Preferred stock, \$0.001 par value, 1,000,000 shares authorized,	
1,000,000 shares issued and outstanding at March 31, 2013 and 666,666 at December 31, 2012	
	1,000
	667
Common stock, \$.001 par value, 850,000,000 shares	
684,390,573 issued and outstanding as of March 31, 2013 and	
663,790,573 at December 31, 2012	

	684,391
	663,791
Common stock, Class A, \$.001 par value, 100,000,000 shares	
authorized, 0 issued and outstanding as of March 31, 2013 and December 31, 2012	
	-
	-
Prepaid consulting	
	(3,130,604)
	(2,864,070)
Additional paid-in capital	
	88,633,356
	86,604,888
Accumulated deficit	
	(88,352,777)
	(86,574,241)
Total stockholders' deficit	
	(2,164,634)
	(2,168,965)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	
	1,134,596
	1,107,464

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

F-1

CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO MARCH 31, 2013

(UNAUDITED)

For the three months

ended March 31,

Period from January 27, 2005
(inception) to March 31, 2013

	2013
	2012
	\$
	\$
	\$
Revenue	1,604
	116,135
	128,286

Operating Expenses

Investor relations

214

15,750

1,318,822

Professional fees

24,980

193,563

33,056,761

Technology license royalties

-

-

160,417

Impairment of oil and gas well lease

-

-

5,089,811

Impairment loss on goodwill

-

-

405,858

Net loss on settlement of liabilities

1,092,150

6,061,100

16,622,087

Net loss on disposal of assets

	8,896
	-
	61,318
Inventory write-down	
	-
	-
	50,235
Depreciation and Amortization	
	42,958
	5,437
	183,614
General and administrative	
	760,623
	1,307,881
	28,663,994
Total operating expenses	
	1,929,821
	7,583,731
	85,612,917
Net Operating Profit (Loss)	
	(1,928,217)
	(7,467,596)
	(85,484,631)
Other income (expense)	
	-

	-
	66,021
Interest income, net	
	-
	-
	2,250
Interest expense, net	
	(277)
	(550)
	(163,312)
Gain on sale of assets	
	262,250
	-
	262,250
Gain on settlement of debts	
	-
	-
	5,167
Gain on derecognized liabilities	
	37,458
	-
	259,889
Unrealized gain (loss) on marketable common stock	
	(149,750)
	-
	225,250

Beneficial conversion feature

-

-

(1,098,992)

Net Income (Loss) Before Income Taxes

(1,778,536)

(7,468,147)

(85,926,108)

State income taxes paid

-

-

(800)

Income tax provision

-

-

(2,035,065)

Income tax benefit

-

-

1,210,270

Net tax

-

-

(825,595)

Net Income (Loss) From Continuing

Operations

(1,778,536)

(7,468,147)

(86,751,703)

Discontinued operations

-

-

(2,425,869)

Income tax benefit

-

-

824,795

-

-

(1,601,074)

Net Loss

(1,778,536)

(7,468,147)

(88,352,777)

Net loss per common share

- Basic and diluted

\$ (0.00)

\$ (0.02)

Weighted average number of

common shares outstanding

676,573,906

363,527,717

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

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CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)

FOR THE PERIOD FROM JANUARY 27, 2005 (inception) to March 31, 2013

Common

Preferred

Shares

Par

\$

Shares

Par

\$

Additional
Paid-in
Capital
\$

Prepaid

Consulting

Accumulated
Deficit
\$

Totals

\$

Balance at January 27, 2005

-

-

-

-

-

-

Founder's Stock Issued

83,800

84

(84

)

-

-

-

Stock Issued for Debt

8,000

26

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

-

-

-

-

(807,600

)

(807,600

)

Balance at December 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 Services	
	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

-

-

-

-

) (36,906,584

) (36,906,584

Balance at December 31, 2006

415,178

415

-

-

38,436,125

(7,633,750)

(38,064,384

)

(7,261,594

)

Shares Issued For Services

63,020

63

528,285

(387,500)

140,848

Shares Issued for Debt Conversion

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

-

-

-

-

-

-

(15,007,117

)

(15,007,117

)

Balance at December 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

50

)

-

-

1

-

-

-

Common stock issued for cash

10,000

10

-

-

19,990

-

-

20,000

Common stock issued for debt conversion

990,000

990

-

-

98,010

-

-

99,000

Common stock issued for acquisition

10,000,000

53

10,000

-

-

2,490,000

-

-

2,500,000

Common stock issued for services

270,000

270

-

-

128,230

-

-

128,500

Net Income

-

3,559,617

3,559,617

Balance at December 31, 2008

12,597,279

12,597

-

-

48,148,783

-

(49,511,884

)

(1,350,504

)

Common stock issued for cash

2,522,495

2,523

-

-

197,552

-

200,075

Common stock issued for services

8,855,000

8,855

-

-

2,507,195

-

2,516,050

Cancellation of stock

(10,000

)

(10

)

-

-

10

-

-

	-
Common stock issued for debt settlements	
	3,680,000
	3,680
	-
	-
	2,020,320

	2,024,000
Preferred stock issued for services	
	-
	-
	999,999
	1,000
	-
	-
	63

	-
	1,000
Stock issued for assets	
	2,100,000
	2,100
	123,900

126,000

Net Loss

—

—

—

—

	-
)	(4,532,061
)	(4,532,061
Balance at December 31, 2009	
	29,744,774
	29,745
	999,999
	1,000

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
Amortization of shares issued for services	
	-
	-
	-
	-
	-
	2,208,178
	-
	2,208,178
Common stock issued for debt settlements	
	42,750,000
	42,750

	-
	-
	5,249,600
	-
	-
	5,292,350
Common stock issued for acquisition write-off	350,000
	350
	-
	-
	36,150
	70

	-
	-
	36,500
Shares pending cancelation	400,000
	400
	-
	-
	(400
)	-

	(8,153,680
)	
Balance at December 31, 2010	
	101,170,574
	101,171
	999,999
	1,000
	62,091,628
	(1,322,630
)	
	(62,197,625
)	
	(1,326,456

)

Common stock issued for services

36,850,000

36,850

-

-

1,157,575

(1,146,700

)

-

47,725

Amortization of shares issued for services

-

-

-

-

-

2,090,174

-

2,090,174

Common stock issued for debt settlements

167,400,000

167,400

-

-

5,129,800

-

-

5,297,200

Net Loss

-

-

-

-

-

-

(8,339,044

)

(8,339,044

)

Balance at December 31, 2011

305,420,574

305,421

	999,999
	1,000
	68,379,003
	(379,156
)	
	(70,536,669
)	
	(2,230,401
)	
Common stock issued for services	171,669,999
	171,670
	-
	-
	78

5,965,555

(4,989,800

)

-

1,147,425

Common stock issued for debt settlements

155,700,000

155,700

-

-

10,688,100

-

	-
	10,843,800
Common stock issued for assets and acquisitions	22,750,000
	22,750
	-
	-
	750,680
	-
	-
	80

	773,430
Common stock issued in connection with joint ventures	
	7,000,000
	7,000
	-
	-
	331,800
	-
	-
	338,800

Common stock pending issuance for services

7,000,000

7,000

-

-

434,000

-

-

441,000

Common stock pending cancellation for services

(750,000

)

(750

)

-

-

750

-

-

-

Common stock pending cancellation for acquisition

(5,000,000

)

(5,000

)

-

	-
	5,000
	-
	-
	-
Amortization of shares issued for services	-
	-
	-

	-
	-
	2,504,886
	-
	2,504,886
Forfeiture of Series A Preferred stock	-
	-
	(333,333)
	(333)

-

-

-

(333

)

Stockholder gift to settle liability

-

-

-

-

50,000

-

-

50,000

Net Loss

-

-

-

-

-

-

(16,037,572

)

(16,037,572

)

Balance at December 31, 2012

663,790,573

663,791

666,666

667

86,604,888

(2,864,070

)

(86,574,241

)

(2,168,965

)

Common stock issued for services

7,100,000

7,100

	-
	-
	436,650
	(74,500)
	-
	369,250
Common stock issued for debt	
	13,500,000
	13,500

-

-

1,092,150

-

-

1,105,650

Preferred stock issued for services

-

-

333,334

333

499,668

(500,001)

-

-

Amortization of shares issued for services

-

-

-

-

-

307,967

-

307,967

Net loss for the period

-

-

	-
	-
	-
	-
)	(1,778,536
)	(1,778,536
Balance at March 31, 2013	
	684,390,573
	684,391

1,000,000

1,000

88,633,356

(3,130,604

)

(88,352,777

)

(2,164,634

)

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

CANNABIS SCIENCE, INC.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO MARCH 31, 2013

(Unaudited)

Period from January 27,

2005 (inception) to

March 31, 2013

March 31, 2012

March 31, 2013

\$

\$

\$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)

(1,778,536

)

(7,468,147

)

(88,352,777)

Less:

Net (income) loss from discontinued operations

-

-

(1,601,074)

Income (loss) from continuing operations

(1,778,536

)

(7,468,147

)

(86,751,703)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation

	1,558
	150
	22,030
Amortization	
	41,400
	5,287
	9,645,604
Impairment on oil lease investments	
	-
	-
	5,076,667
Stock issued for services	
	677,217
	300,585
	41,706,022
Forfeiture of preferred stock	
	-

	-
	(333)
Loss (gain) on marketable securities	149,750
	-
	(225,250)
Gain on settlement of liability	-
	(41,135
)	(5,167)
Gain on derecognized liabilities	-
	(222,431)
Gain on joint ventures	(262,250
)	-

	(262,250)
Loss on settlement of debt	
	1,092,150
	6,061,100
	23,122,738
Loss on acquisition write-off	
	-
	-
	36,500
Loss on asset write-off	
	8,896
	-
	8,896
Loss on joint-ventures	
	-
	-
	188,800
Impairment loss on goodwill	

	-
	-
	405,858
Changes in operating assets and liabilities:	
Accounts receivable	-
	-
	(2,087)
Accounts receivable, related parties	25,000
	(25,000)
	-
Prepaid expenses and deposits	(3,093
)	

	9,794
	(3,203)
Inventory	-
	-
	(29,102)
Accounts payable	(228
)	(105,726)
	2,222,970
Accrued expenses, including management fees	(87,871
)	1,132,027
	472,124
Due to related parties	-
	-

	66,500
Accrued interest payable to affiliate	-
	-
	214,982
CASH FLOWS USED IN OPERATING ACTIVITIES	
FROM CONTINUING OPERATIONS	
	(136,007)
)	
	(142,815)
)	
	(4,311,837)
CASH FLOWS PROVIDED BY OPERATING	
ACTIVITIES FROM DISCONTINUED OPERATIONS	

	(11,750
)	
	(11,964)
Advances receivable, related parties	
	(14,155
)	
	-
	(106,097)
Purchase of website	
	-
	-
	(2,180)
Purchase of oil & gas leases	
	-
	-
	(30,000)
Purchase of property, plant & equipment	
	-
	-

	(62,692)
CASH FLOWS USED IN INVESTING ACTIVITIES	
	(3,492
)	-
	(228,754)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from convertible note-related party	-
	-
	951,342
Proceeds from advances from officer	-
	-
	94,500
Repayments on advances from officer	

	-
	-
	(74,000)
Proceeds from notes payable-stockholders	
	98,000
	143,062
	1,131,620
Repayments on notes payable-stockholders	
	-
	-
	(2,691)
Advances from related parties	
	27,400
	-
	1,191,493
Repayment of advances from related parties	
	(1,000
)	

	-
	(1,000)
Proceeds from sale of common stock	-
	-
	358,861
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	124,400
	143,062
	3,650,125
NET INCREASE IN CASH	(15,099
)	247
	8,461
CASH, BEGINNING OF PERIOD	23,560
	2,197
	109

CASH, END OF PERIOD

8,461

2,444

8,461

SUPPLEMENTAL CASH FLOW INFORMATION:

Common stock issued for services

	677,217
	32,750
	13,581,596
Net liabilities assumed with recapitalization	-
	-
	200,000
Divestiture of subsidiary to related party	-
	-
	794,340
Common stock issued for settlement of debt	1,092,150
	6,061,100
	25,829,700
Debt converted into common stock	13,500
	75,000
	839,091
Common stock issued for acquiring oil & gas leases	-

	-
	7,906,200
Common stock issued for assets	
	-
	-
	899,450
Common stock issued for products	
	-
	-
	338,800
Cancellation of shares issued for services	
	-
	-
	103,500
Preferred stock issued for services	
	-
	-

	1,000
Common stock for loss on acquisition write-off	-
	-
	36,500
Marketable securities acquired through sale of JV	262,250
	-
	412,250
Acquisition payment paid through note payable, related party	-
	-
	155,000
Accounts payable paid through note payable, stockholder	20,000
	10,415
	588,889
Advance from related party paid to AGI (Note 4)	

	-
	-
	25,000
Accounts payable paid by related parties	
	10,000
	13,884
	63,968
Accounts payable paid through stockholder gift	
	-
	50,000
	50,000
Intangibles allocated to goodwill	
	22,000
	-
	22,000
Intangibles allocated to intangibles	
	125,000

125,000

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

MARCH 31, 2013

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.

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

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

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

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

On May 7, 2009 the Company common shares commenced trading under the new stock symbol OTCBB: CBIS. Cannabis Science Inc. has also launched its new website www.cannabisscience.com reflecting its new name.

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 December 31, 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. As of December 31, 2012, in conjunction with Company

efforts to focus on FDA development and sell off other non-conforming business interests, Cannabis Science decided to discontinue its license agreement and business dealings with Rockbrook.

On August 10, 2011, the Company entered into a Memorandum of Understanding (MOU) with Prescription Vending Machines, Inc. (PVM) for consideration of \$250,000 in common stock. Under the MOU, Cannabis Science, Inc. became a distributor of all PVM products and services in the Continents of Asia, Africa, North America, South America, Antarctica, Europe, and Australia/Oceania with a regions exclusive with the exception of the United States of America, United Kingdom, South America, and Antarctica. Under the MOU, PVM provides machine and consulting services to the Company at its cost and shares in gross profits on a 50/50 basis, excluding the United States of America. PVM and the Company were to setup a Canadian corporation, as a jointly-held corporation for consulting and machine sales, and sales office in Canada. PVM is responsible for all costs to establish the office and launch the business activities up to \$50,000 and operating costs up to an additional \$50,000. The Company has paid its \$250,000 consideration due under the MOU. PVM is working to setup the office and other deliverables to commence operations by the end of fiscal 2013.

On February 9, 2012, the Company signed a license agreement with Apothecary Genetics Investments LLC. to produce several Cannabis Science Brand Formulations for the California medical cannabis market. As well, Apothecary will provide research and development facilities with full circle operations including a California laboratory facility for internal research and development, along with 16 unique genetic strains specifically generated and maintained by a cancer survivor who recognizes the importance of proper growth and breeding. In addition, Apothecary was to invest \$250,000 in the first 24 months for research and development. The Company earned a \$25,000 license fee under the agreement for the fiscal year ended December 31, 2012 that was subsequently paid to the Company on March 8, 2013.

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. All transactions related to Dr. Afaneh have been eliminated in the accompanying consolidated financial statements as though they had never occurred due to his termination in Q4 and settlement and cancellation of the shares on April 12, 2013.

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 16,750,000 common shares with a fair market value of \$626,450 to the principals of GGECO and assumed net liabilities of \$24,686. The preliminary valuation of GGECO acquisition totaling \$674,474 has been allocated to intangibles as at December 31, 2012. These common shares were issued on April 24, 2012. As of December 31, 2012, the Company recognized a goodwill impairment loss of \$405,858 in regards to goodwill acquired in the GGECO acquisition. The 8,250,000 common shares issued to Dr. Afaneh have been eliminated in the accompanying consolidated financial statements as though they had never occurred due to his termination in Q4 and settlement and cancellation of the shares on April 12, 2013.

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. In lieu of the 250,000 shares, \$25,000 was paid to Robert Kane. \$125,000 have been allocated to intangibles and \$22,000 to goodwill of the \$147,000 purchase price for the acquisition of the CCI Group as at March 31, 2013. All intangibles are amortized on a straight line basis over 5-years.

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 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 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 December 31, 2012 were not consolidated with the consolidated financial statements of the Company 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 issued 1 million common shares on November 15, 2012 with a fair market value of \$38,500 to each of WNGM and Mr. Kattar. On February 8, 2013, the Company sold its rights and interest in the JV to the X-Change Corporation for 2,500,000 common shares with a fair market value of \$262,250, or \$0.1049 per share.

On December 11, 2012, the Company entered into an Asset Purchase Agreement with the X-Change Corporation (OTCBB: XCHC) to sell its 90% rights and interest in the Dupetit Natural Products GmbH (DNPG) joint-venture operating agreement to X-Change for consideration of 5,000,000 shares of common stock of XCHC with a fair market value of \$150,000 or \$0.03 per share.

On February 8, 2013, the Company entered into an Asset Purchase Agreement with the X-Change Corporation (OTCBB: XCHC) to sell its 25% rights and interest in the Maliseet Nation at Tobique joint-venture operating agreement for consideration of 2,500,000 shares of common stock of XCHC with a fair market value of \$262,250 or \$0.1049 per share.

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.

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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 December 31, 2012 were consolidated with the consolidated financial statements of the Company for the year ended December 31, 2012. The s-type corporation of GGECO was dissolved in 2012 and all operations combined into the Company's. An independent valuation firm determined the intangibles acquired in GGECO to be \$192,119 consisting of \$150,000 for educational materials, \$20,000 for the trade name, and \$22,119 for the workforce. The total purchase price of \$450,132, including acquired net liabilities, audit and valuation costs was

recorded. A total of \$44,274 in unimpaired goodwill remains at March 31, 2013.

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

C. Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined.

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

Under ASC 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2012 to December 31, 2012 and from inception through December 31, 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.

E. Cash and Cash Equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash equivalents.

F. Long-Lived Assets & Impairment on Oil Lease Investments

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

G. Inventory

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

H. Fair Value Measurements

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

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

I. Technology License and Royalties

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

J. 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 a valuation by an accredited independent certified business valuator and/or internal valuation, where acquisitions were immaterial in nature. Finite life intangibles 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 likely than not that the indefinite-lived intangible asset is impaired, then we are not required to take further action. If the Company concludes otherwise, then we will determine the fair value of the indefinite-lived intangible asset and perform the required quantitative impairment test by comparing the fair value with the carrying amount.

The Company determined and recorded an impairment loss on goodwill of \$405,858 which was included in operating expenses and resulting net operating loss for the year ended December 31, 2012.

K. Income Taxes

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

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

Unfiled Federal Tax Returns

In February 2009, the Company filed appropriate federal tax returns for the years ending December 31, 2003 through 2007 and may be subject to failure to file penalties. For the years ending December 31, 2008 through December 31, 2012, the Company has not filed any federal tax returns. The Company estimates that the amount of penalties, if any, will not have a material effect on the results of operations, cash flows or financial position. No provisions have been made in the financial statements for such penalties, if any.

L. Marketable Securities

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

M. Stock-Based Compensation

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

N. Revenue Recognition

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

O. 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 years ended December 31, 2012 and December 31, 2011, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

P. 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. The businesses of GGECO and CCI acquired during 2012 have minimal operations and the Company's other activities under license agreements, MOU, and joint-ventures have not commenced operations in 2013; therefore, the Company remains as previously defined as a development stage entity as at March 31, 2013.

Q. Recent Accounting Pronouncements

During the three months March 31, 2013 and through August 15, 2013, there were several new accounting pronouncements issued by the FASB the most recent of which was ASU update number 2013-08 Financial Services Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements (the ASU) which amends the criteria for an entity to qualify as an investment company and introduces new disclosure requirements that apply to all investment companies. The ASU is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2013. 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.

R. 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 \$88,328,110 and had a stockholders' deficit of \$2,164,634 at March 31, 2013.

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, 2013, 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.

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3. MARKETABLE SECURITIES

At March 31, 2013, the Company held 7,500,000 common shares in the X-Change Corporation (OTCBB: XCHC) (X-change) representing approximately 8.6% of the issued and outstanding shares of X-Change, of which 5,000,000 common shares were acquired at a fair market value of \$150,000 or \$0.03 on December 12, 2012 and 2,500,000 common shares were acquired at a fair market value of \$262,250 or \$0.1049 per share on February 8, 2013. The 5,000,000 common shares were received as consideration for the sale of its rights and interest in the Dupetit Natural Products GmbH joint-venture operating agreement to X-Change under an Asset Purchase Agreement and the 2,500,000 common shares were received as consideration for the sale of its rights and interest in the Maliseet joint-venture operating agreement to X-Change under an Asset Purchase Agreement . The value of the shares at March 31, 2013 was determined to be \$0.085 per share or \$637,500 with the Company recording an unrealized loss of \$149,750, which was recorded in other income for the three months ended March 31, 2013.

4. FAIR VALUE MEASUREMENTS AND DISCLOSURES

ASC Topic 820, *Fair Value Measurement*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC Topic 820 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for the Company's liabilities measured at fair value. There have been no changes in the methodologies used at March 31, 2013.

Investment in marketable securities: Trading securities valued at the closing price of XCHC shares held by the Company at year end.

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

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The following tables set forth by level, within the fair value hierarchy, the Company's liabilities at fair value as of March 31, 2013 and December 31, 2012.

December 31, 2012

		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investment in trading securities	\$	575,000\$	-\$	-\$	575,000
Intangibles from GGECO acquisition,					
net of accumulated amortization		-	-	157,918	157,918
Total assets as of December 31, 2012	\$	575,000\$	-\$	157,918\$	732,918

March 31, 2013

Investment in trading securities	\$	637,500\$	-\$	-\$	637,500
Intangibles from GGECO, CCI acquisitions,					
net of accumulated amortization		-	-	270,138	270,138
Total assets as of March 31, 2013	\$	637,500\$	-\$	270,138\$	907,638

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5. RELATED PARTY TRANSACTIONS

At March 31, 2013, a total of \$232,703 (December 31, 2012: \$196,703) was due to Bogat Family Trust, Raymond Dabney the Company's Managing Consultant as trustee, and a \$400 (December 31, 2012: \$2,000) officer advance was due to the Company's President, Robert Melamede. On January 2, 2013, Bogat Family Trust, a controlling

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stockholder, loaned \$10,000 to the Company in the form an unsecured, non-interest bearing loan without terms or conditions. 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 January 1, 2013, the Company entered into five year Management Agreements and issued 166,667 Series A preferred shares each to Robert J. Melamede, President/interim CFO and Bogat Family Trust, Raymond Dabney trustee, for services rendered.

On February 8, 2013 the Company sold its rights and interest in the Maliseet Nation at Tobique Joint Venture to the X-Change Corporation for consideration of 2,500,000 common shares with a fair market value or \$0.1049 per share or \$262,250. Robert Kane, V.P. of Investor Relations is the President of X-Change Corporation and Chad S. Johnson, Esq., COO, general counsel and a director is also a director and general counsel for X-change Corporation. The Company recorded an unrealized loss on marketable securities of \$149,750 at March 31, 2013 in regards to the X-change Corporation shares received under this transaction.

For the three months ended March 31, 2013, the following related party stock-based compensation was recorded:

Related Party	Position	Amount
Dr. R Malemede	CEO, CFO	\$ 331,564
Bogat Family Trust ¹	Managing Consultant	262,501
Raymond Dabney	Managing Consultant	69,062
Chad S. Johnson, Esq.	COO and General Counsel	305,500
		\$968,627

¹Raymond Dabney, managing consultant is acting trustee of Bogat Family Trust.

During the three months ended March 31, 2013, a stockholder of the Company, Intrinsic Venture Corp, loaned the following amounts to the Company that were secured by promissory notes, as follows:

<u>Note Amount</u>	<u>Issue Date</u>
\$20,000	January 2, 2013 (non-cash)
\$ 5,000	January 4, 2013
\$15,000	January 16, 2013
\$22,000	February 4, 2013
\$11,000	February 7, 2013
\$25,000	February 28, 2013

\$20,000

March 8, 2013

Total loans under notes payable were \$118,000 for the three months ended March 31, 2013.

6. NOTES PAYABLE

As at March 31, 2013, a total of \$1,411,563 (December 31, 2012: \$1,307,218) of notes payable are due to stockholders that are non-interest bearing and are due 12 months from the date of issue and loan origination beginning on November 27, 2011 through March 8, 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, 2012: \$155) is due to a stockholder under a promissory note that is non-interest bearing and has no specified terms of repayment.

7. EQUITY TRANSACTIONS

The Company is authorized to issue 850,000,000 shares of common stock with a par value of \$0.001 per share. These shares have full voting rights. There were 684,390,573 issued and outstanding as of March 31, 2013.

The Company is also authorized to issue 100,000,000 shares of common stock, Class A with a par value of \$0.001 per share. These shares have 10 votes per share. There were 0 issued and outstanding as of March 31, 2013.

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 1,000,000 issued and outstanding as of March 31, 2013.

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 March 31, 2013, the Company issued the following common stock:

On January 29, 2013, the Company issued 5,000,000 common shares with a fair market value of \$250,000 to Chad S. Johnson, Esq. due under a January 1, 2013 bonus agreement for services in the capacity of COO.

On February 8, 2013, the Company entered into an Asset Purchase Agreement with X-Change Corporation to sell its interest and rights in the joint-venture operating agreement entered into with Maliseet Nation at Tobique (Maliseet) on September 10, 2012 in exchange for 2,500,000 shares of common stock in X-Change Corp. (OTCQB: XCHC) with a fair market value of \$0.1049 per share or \$262,250.

On February 11, 2013, the Company effectively issued 1,000,000 shares of common stock with a fair market value of \$71,500 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On February 28, 2013, the Company issued 13,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$1,092,150, assigned from the stockholder notes payable originating on July 1, 2011 and July 11, 2011.

On March 7, 2013, the Company effectively issued 500,000 shares of common stock with a fair market value of \$35,750 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On March 26, 2013, the Company effectively issued 100,000 shares of common stock with a fair market value of \$7,750 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On March 28, 2013, the Company issued 500,000 common shares with a fair market value of \$38,750, or \$0.715 per share, to a scientific advisor pursuant to a February 26, 2013 management agreement.

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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;
- (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 March 31, 2013 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 March 31, 2013	
	1,700,000
	0.41
Options exercisable at March 31, 2013	

The weighted average fair value at date of grant for options during three months ended March 31, 2013 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

%

8. EQUIPMENT

		Accumulated	Net Book Value	Net Book Value
	Cost	Depreciation	March 31, 2013	December 31, 2012
Equipment	\$ 3,000	\$ 2,783	\$ 217	\$ 367
Laboratory equipment	-	-	-	8,895
Software	5,000	1,609	2,350	4,017
<u>Computers</u>	<u>5,716</u>	<u>3,366</u>	<u>3,391</u>	<u>3,133</u>
	<u>\$ 13,716</u>	<u>\$ 7,758</u>	<u>\$ 5,958</u>	<u>\$ 16,412</u>

All equipment is stated at cost. Maintenance and repairs are charged to expense as incurred and the cost of renewals and betterments are capitalized. Depreciation is computed using the straight-line method over the estimated lives of the related assets, 2 years for computer, 2 years for software, and 5 years for equipment and laboratory equipment. For the three months ended March 31, 2013 the Company wrote-off laboratory equipment with a net book value of \$8,895.

9. INTANGIBLE ASSETS

	March 31, 2013	December 31, 2012
Intellectual assets, primarily intellectual property	\$ 445,299	\$ 320,299
Less accumulated amortization	<u>(175,161)</u>	<u>(133,761)</u>
	<u>\$ 270,138</u>	<u>\$ 186,538</u>

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

10. COMMITMENTS

Mohammad Afaneh, former COO of the Company, secured a lease on behalf of the Company on June 26, 2012 for a facility in Henderson, NV that was also guaranteed by a stockholder of the Company. Lease commitments consist of \$4,000 per month. The lease has been prepaid through December 2012, with additional payments of \$4,000 commencing and due on January 1, 2013 through June 30, 2013. On June 1, 2013 the Company gave notice to terminate the lease on June 30, 2013. The lease was terminated as planned on June 30, 2013 with no further commitments.

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11. SUBSEQUENT EVENTS

On April 4, 2013, the Company retroactively cancelled 5,750,000 common shares as if they had never been issued previously to Goldsmith Health Care, Ltd. (GHC) and Dr. Ivan Goldsmith pursuant to a court settlement agreement in September 2012. All transactions pertaining to these shares issued to GHC and Dr. Goldsmith were reversed as if they have never occurred in these consolidated financial statements for the year ended December 31, 2012 and the three months ended March 31, 2013.

On April 12, 2013, the Company retroactively cancelled 41,750,000 common shares as if they had never been issued previously to Dr. Mohammad Afaneh pursuant to his termination in Q4 and a court approved settlement in February 2013. All transactions pertaining to these shares issued to Dr. Afaneh were reversed as if they have never occurred in these consolidated financial statements for the year ended December 31, 2012.

On May 20, 2013, the Company issued 5,000,000 common shares to the newly appointed CEO and director, Dr. Dorothy Bray, for services rendered under a two-year management agreement.

On June 24, 2013, the Company issued 5,000,000 common shares to the newly appointed director and director and officer of European subsidiaries, Mario Lap, for services rendered under a two-year management agreement.

On June 7, 2013, the Company issued 833,333 common shares at \$0.03 per share to an accredited investor under a private placement subscription for total proceeds of \$25,000.

On July 18, 2013, the Company issued 100,000 common shares at a fair market value of \$0.066 for services earned

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for the month ending April 26, 2013 (value date) and rendered under a February 26, 2013 management agreement with a scientific advisor of the Company.

On July 18, 2013, the Company issued 100,000 common shares at a fair market value of \$0.0553 for services earned for the month ending May 26, 2013 (value date) and rendered under a February 26, 2013 management agreement with a scientific advisor of the Company.

On July 25, 2013, the Company issued 15,000,000 common shares for settlement of \$15,000 of stockholder debt, for a loss on settlement of \$582,000, assigned from the stockholder notes payable originating on December 31, 2011. These shares are pending issuance at August 15, 2013.

A stockholder of the Company, Intrinsic Venture Corp, loaned the following amounts to the Company that were secured by promissory notes, as follows:

<u>Note Amount</u>	<u>Issue Date</u>
\$30,500	April 1, 2013

Total promissory note loans from this stockholder was \$30,500 to the Company subsequent to the three months ended March 31, 2013 to August 15, 2013. The Company repaid \$25,000 of loans due under the promissory notes on August 2, 2013.

Intrinsic Capital Corp., loaned the following amounts to the Company that were secured by promissory notes, as follows:

\$22,000	May 17, 2013
\$15,000	May 31, 2013
\$10,229	July 3, 2013
\$38,328	July 23, 2013
\$1,250	August 15, 2013

Total promissory note loans was \$86,807 to the Company for the period subsequent to the three months ended March 31, 2013 to August 15, 2013.

Common shares reconciliation table:

Issued and outstanding as of March 31, 2013	684,390,573
Subsequent events issuances	11,033,333
<u>Pending subsequent event issuances</u>	<u>15,000,000</u>
<u>Issued and outstanding as of August 15, 2013</u>	<u>710,423,906</u>

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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 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.

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.

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 March 31, 2013, 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 March 31, 2013.

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 March 31, 2013. 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 Company performed an internal valuation and allocated \$125,000 to intangibles and \$22,000 to goodwill from the CCI Group acquisition totaling \$147,000.

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 December 12, 2012 the Company sold its interest in the JV to the X-Change Corporation for 5,000,000 common shares with a fair market value of \$150,000.

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.

On December 11, 2012, the Company entered into an Asset Purchase Agreement with the X-Change Corporation (OTCBB: XCHC) to sell its 90% rights and interest in the Dupetit Natural Products GmbH (DNPG) joint-venture operating agreement to X-Change for consideration of 5,000,000 shares of common stock of XCHC with a fair market value of \$150,000 or \$0.03 per share.

On February 8, 2013, the Company entered into an Asset Purchase Agreement with the X-Change Corporation (OTCBB: XCHC) to sell its 25% rights and interest in the Maliseet Nation at Tobique joint-venture operating agreement for consideration of 2,500,000 shares of common stock of XCHC with a fair market value of \$262,250 or \$0.1049 per share.

For the quarter ended March 31, 2013, the Company recorded an unrealized loss of \$149,750 (December 31, 2012; unrealized gain of \$375,000) on marketable securities in relation to the XCHC common stock acquired in the aforementioned joint-venture Asset Purchase Agreements with the X-Change Corporation.

Liquidity

The Company has a working capital deficit of \$2,507,004 as of March 31, 2013 compared to a working capital deficit of \$394,224 for the year ended December 31, 2012. There are insufficient liquid assets to meet current liabilities or sustain operations through 2013 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 \$1,411,718 due to stockholders over the next 12 months beginning on August 20, 2013 through August 15, 2014.

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. The lease was terminated on June 30, 2013 with no further commitments.

Capital Resources

The Company has capital resource requirements for supplies, laboratory and scientific equipment of approximately \$1,250,000 over the next 12 months in order to further drug development. 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 March 31, 2013 compared to \$25,000 for the comparative prior year quarter. This decrease resulted from the Company's license agreement with Rockbrook that was inactive and cancelled at the end of December 31, 2012.

The Company had course and consulting revenue of \$1,604 for the three months ended March 31, 2013 compared to \$0 for the prior year comparable quarter. This increase is due to the acquisitions of GGECO University and CCI in

the first quarter of fiscal 2012.

Net loss on settlement of debt decreased by \$4,968,950 to \$1,092,150 for the three months ended March 31, 2013 compared to \$6,061,100 for the three months ended March 31, 2012. This decrease is due to the Company settling a decreased amount of debt through the issuance of common shares.

General and administrative expenses decreased by \$547,258 to \$760,623 for the three months ended March 31, 2013 compared to \$1,307,881 for the three months ended March 31, 2012. This decrease is due to reduced stock compensation expense pursuant to management consulting and bonus agreements.

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

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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.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable.

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

During the three months ended March 31, 2013, 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 January 29, 2013, the Company issued 5,000,000 common shares with a fair market value of \$250,000 to Chad S. Johnson, Esq. due under a January 1, 2013 bonus agreement for services in the capacity of COO.

On February 8, 2013, the Company entered into an Asset Purchase Agreement with X-Change Corporation to sell its interest and rights in the joint-venture operating agreement entered into with Maliseet Nation at Tobique (Maliseet) on September 10, 2012 in exchange for 2,500,000 shares of common stock in X-Change Corp. (OTCQB: XCHC) with a fair market value of \$290,000, or \$0.116 per share. As a material inducement for the JV partners to waive their pre-emptive purchase rights, the Company issued 500,000 shares of common stock with a fair market value of \$58,000 to Maliseet and 1,000,000 shares of common stock with a fair market value of \$116,000 to George Kattar.

On February 11, 2013, the Company deemed to have issued 1,000,000 shares of common stock with a fair market value of \$71,500 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On February 28, 2013, the Company issued 13,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$1,092,150, assigned from the stockholder notes payable originating on July 1, 2011 and July 11, 2011.

On March 7, 2013, the Company deemed to have issued 500,000 shares of common stock with a fair market value of \$35,750 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On March 26, 2013, the Company deemed to have issued 100,000 shares of common stock with a fair market value of \$7,750 to a scientific advisor for services rendered under a management agreement. The shares were issued on July 18, 2013.

On March 28, 2013, the Company issued 500,000 common shares with a fair market value of \$38,750, or \$0.715 per share, to a scientific advisor pursuant to a February 26, 2013 management agreement.

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 Asset Purchase Agreement

10.2 Debt Settlement Agreements

10.3 Bonus and Management Agreements

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.

August 23, 2013

/s/ Dr. Dorothy Bray

Date

Dr. Dorothy Bray, President and

Chief Executive Officer

August 23, 2013

/s/ Dr. Robert Melamede

Date

Dr. Robert Melamede, Chief Financial Officer