CANNABIS SCIENCE, INC.
Form 10-Q
November 21, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

100 F Street NE

WASHINGTON, DC 20002

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the quarterly period ended September 30, 2011.

OR

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

Commission File Number: 001-28911

CANNABIS SCIENCE, INC.

(Exact name of registrant as specified in its charter)

Nevada

91-1869677

(State or other jurisdiction of incorporation or

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

organization)

6946 N Academy Blvd, Suite B #254

Colorado Springs CO 80918

(Address of principal executive offices,

including zip code)

888-889-0888

(Registrant s telephone number, including area code)

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

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

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

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

Large accelerated filer ( ) Accelerated filer ( )

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

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

At November 4, 2011, the Company had outstanding of 241,920,574 shares of Common Stock, $0.001 par value per share.

CANNABIS SCIENCE, INC.

FORM 10-Q

For the Quarter Ended September 30, 2011

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PART 1 FINANCIAL INFORMATION.

ITEM 1. FINANCIAL STATEMENTS

CANNABIS SCIENCE, INC.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Balance Sheets

September 30, 2011 and December 31, 2010

September 30,

2011

December 31,

(unaudited)

$

2010

$

ASSETS

Current Assets

Cash

6,190

1,190

Prepaid expenses

3,128

18,009

Total current assets

9,318

19,199

Deposits	
	6,666
	6,666
Computer and Equipment, net of accumulated	
depreciation of $3,425 and $2,389	
	1,145
	2,181
Intangibles, net of accumulated amortization	
of $73,125 and $57,264	

	52,875	68,736
TOTAL ASSETS	70,004	96,782
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	495,844	393,753
Accrued expenses	1,267,761	675,000

Advances from related parties	156,818	107,835
Advances from officers	-	1,807
Notes payable to stockholders	188,055	171,509
Deferred license revenue	-	73,334
Total current liabilities and total liabilities	2,108,478	1,423,238

Stockholders Deficit

Preferred stock, $0.001 par value

Authorized 1,000,000 shares

Issued and outstanding, 999,999 shares

respectively

1,000

1,000

Common stock, $0.001 par value

Authorized 250,000,000 shares

Issued and outstanding, 184,120,574 shares and 101,170,574, respectively	184,121	101,171
Prepaid consulting	(283,462)	(1,322,630)
Additional paid-in capital	66,199,303	62,091,628
Accumulated deficit	(68,139,436)	(62,197,625)
Total stockholders' deficit	(2,038,474)	(1,326,456)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		

70,004

96,782

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

CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO SEPTEMBER 30, 2011

(UNAUDITED)

For the three months ended September 30,

For the nine months ended September 30,

Period from January 27, 2005 (inception) to September 30, 2011

2011

2010

2011

2010

$

$

$

$

$

Revenue

368

-

73,702

-

90,107

Operating Expenses

Investor relations

17,660

3,205

33,052

49,000

1,153,844

Professional fees

25,115

38,100

70,144

39,975

32,721,324

Technology license royalties

-

-

-

-

160,417

Impairment of oil and gas well lease

-

-

-

-

5,089,811

Net loss (gain) on settlement of liabilities

873,700

945,500

3,245,400

2,422,500

2,985,937

Depreciation and Amortization

5,633

5,555

16,897

21,734

76,116

General and administrative

463,324

1,414,889

2,649,683

2,088,615

22,429,544

Total operating expenses

1,385,431

2,407,249

6,015,176

4,621,824

64,616,993

Net Operating Loss

(1,385,063)

(2,407,249)

(5,941,474)

(4,621,824)

(64,526,886)

Other income (expense)

-

-

(337)

-

66,021

Interest expense, net

-

-

-

-

(153,711)

Beneficial conversion feature

-

-

-

-

(1,098,992)

Net Income (Loss) Before Income Taxes

(1,385,063)

(2,407,249)

(5,941,812)

(4,621,824)

(65,713,569)

Income tax provision

	-
	-
	-
	-
	(2,035,065)
Income tax benefit	
	-
	-
	-
	-
	1,210,270
Net tax	
	-
	-
	-
	-
	(824,795)
Net Loss From Continuing	

Operations	
	(1,385,063)
	(2,407,249)
	(5,941,812)
	(4,621,824)
	(65,538,364)
Discontinued operations	
	-
	-
	-
	-
	(2,425,868)
Income tax benefit	
	-
	-
	-
	-
	824,795
Net Loss	
	(1,385,063)
	(2,407,249)
	(5,941,812)
	(4,621,824)

(68,139,437)

Net loss per common share

$ (0.01)

$ (0.04)

$ (0.04)

$ (0.10)

- Basic and diluted

Weighted average number of

common shares outstanding

152,354,688

68,610,163

141,346,215

47,087,870

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

CANNABIS SCIENCE, INC.

(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF SHAREHOLDERS EQUITY/(DEFICIT)

FOR THE PERIOD FROM JANUARY 27, 2005 (inception) to SEPTEMBER 30, 2011

(Unaudited)

	Preferred Shares	Common Par	Shares	Par	Additional Paid-in Capital	Prepaid Consulting	Accum. Deficit	Total
		$		$	$	$	$	$
Bal, Jan 27, 2005	-	-	-	-	-	-	-	-
Founder's stock issued			83,800	84	(84)	-	-	-
Stock issued for debt			8,000	8	399,992	-	-	400,000
Shares issued for license agreement			86,188	86	(86)	-	-	-
Effect of reverse merger			13,840	14	(200,014)	-	-	(200,000)
Divestiture of subsidiary to related party			-	-	544,340	-	-	544,340
Net loss for the period							(807,600)	(807,600)
Bal, Dec 31, 2005	-	-	191,828	192	744,148	-	(807,600)	(63,260)
Shares issued for employment			45,500	45	8,487,455	-	-	8,487,500
Shares issued for								

service			171,080	171	28,798,329	(7,633,750)	-	21,164,750
Shares issued for								
lease agreement			6,770	7	406,193	-	(350,200)	56,000
Net loss for the year							(36,906,584)	(36,906,584)
Bal, Dec 31, 2006	-	-	415,178	415	38,436,125	(7,633,750)	(38,064,384)	(7,261,594)
Shares issued for								
service			63,020	63	528,285	(387,500)		140,848
Shares issued for								
debt			350,000	350	349,650			350,000
Amortization of								
beneficial conversion								
feature					1,066,657			1,066,657
Amortization of shares								
issued for services						8,021,250		8,021,250
Shares issued for								
properties			500,000	500	4,999,500			5,000,000
Net loss for the year							(15,007,117)	(15,007,117)

	Preferred Shares	Preferred Par $	Common Shares	Par $	Additional Paid-in Capital $	Prepaid Consulting $	Accum. Deficit $	Total $
Bal, Dec 31, 2007	-	-	1,328,198	1,328	43,380,217	-	(53,071,501)	(9,689,956)
Amortization of								
beneficial conversion								
feature					32,335			32,335
Cancellation and								
amortization of shares			(919)	(1)	1			-
Shares issued for cash			10,000	10	19,990			20,000
Shares issued for debt			990,000	990	98,010			99,000
Shares issued for								
acquisition			10,000,000	10,000	2,490,000			2,500,000
Shares issued for								
service			270,000	270	128,230			128,500
Net profit for the year							3,559,617	3,559,617
Bal, Dec 31, 2008	-	-	12,597,279	12,598	47,148,783	-	(49,511,884)	(2,350,504)
Shares issued for cash			2,522,495	2,523	197,552			200,075
Shares issued for								
service			8,855,000	8,855	2,507,195			2,516,050
Cancellation of shares			(10,000)	(10)	10			-
Shares issued for debt			3,680,000	3,680	2,020,320			2,024,000
Shares issued for								
service	999,999	1,000						1,000
Shares issued for								
assets			2,100,000	2,100	123,900			126,000
Net loss for the year							(4,532,061)	(4,532,061)
Bal, Dec 31, 2009	999,999	1,000	29,744,774	29,745	52,997,760	-	(54,043,945)	(1,015,440)
Common stock issued								
for cash	-	-	1,245,800	1,246	137,540	-		138,786

Common stock issued for services	-	-	26,680,000	26,680	3,670,978	(3,530,808)	-	166,850
Common stock issued for acquisition write-off	-	-	350,000	350	36,150	-	-	36,500
Common stock issued for debt	-	-	42,750,000	42,750	5,249,600	-	-	5,292,350
Amortization of shares issued for services	-	-	-	-	-	2,208,178	-	2,208,178
Common shares pending cancelation	-	-	400,000	400	(400)		-	-
Net loss for the period	-	-	-	-	-	-	(8,153,680)	(8,153,680)
Bal, Dec 31, 2010	999,999	1,000	101,170,574	101,171	[illegible]	[illegible]	[illegible]	[illegible]
Common stock issued for services	-	-	20,750,000	20,750	861,875	(851,400)	-	31,225
Common stock issued for debt	-	-	62,600,000	62,600	3,245,400	-	-	3,308,000
Common shares cancelled	-	-	(400,000)	(400)	400	-	-	-

Amortization of shares issued for services

-

-

-

-

-

1,890,568

-

1,890,568

Net loss for the period

-

-

-

-
-
-
(5,941,811)
(5,941,812)

Bal, September 30, 2011
999,999
1,000
184,120,574
184,521
66,199,303
(283,462)
(68,139,436)
(2,038,474)

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

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOWS

(Unaudited)

Period from

January 27,

2005

For the nine months

(inception) to

ended September 30,

September 30,

2011

2010

2011

$

$

$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	(5,941,811)	(4,621,824)	(68,139,436)
Plus:			
Income from discontinued operations	-		

-

1,601,073

Total net loss

(5,941,811)

(4,621,824)

)

(66,538,363)

Adjustments to reconcile net loss to net

cash used in operating activities:

Depreciation

1,036

539

16,568

Amortization

15,861

21,194

9,543,568

Impairment on oil lease investments	-	-	5,076,667
Stock issued for services	1,921,793	1,450,798	36,719,479
Loss (gain) on settlement of debt	3,245,400	2,422,500	9,486,588
Loss (gain) on acquisition write-off	-	-	36,500
Changes in operating assets and liabilities:			
Accounts receivable	-	-	

(2,087)

Prepaid expenses and deposits

14,881

(12,000)

(9,794)

Inventory

-

-

(29,102)

Accounts payable

102,090

(10,068)

1,631,627

Deferred license revenue

(73,334)

-

-

Accrued expenses

592,761

539,377

213,706

Due to related parties

-

(52,400)

66,500

Accrued interest payable to affiliate

-

-

214,892

CASH FLOWS USED IN OPERATING ACTIVITIES

FROM CONTINUING OPERATIONS

(121,323)

(148,084)

)

(3,573,250)

CASH FLOWS PROVIDED BY OPERATING

ACTIVITIES FROM DISCONTINUED OPERATIONS

-

-

898,927

NET CASH USED IN OPERATING ACTIVITIES

(121,323)

(148,084)

(2,674,323)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of oil & gas leases

-

-

(30,000)

Purchase of property, plant & equipment

-

-

(43,522)

CASH FLOWS USED IN INVESTING ACTIVITIES

-

-

(73,522)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from convertible note-related party

-

-

951,342

Proceeds from advances from officer

-

-

94,307

Repayments on advances from officer

(1,807)

-

(73,807)

Proceeds from notes payable to stockholders

79,146

-

220,846

Repayments on notes payable to stockholders

-

-

(691)

Advances from related parties

48,983

9,807

1,203,176

Proceeds from sale of common stock

-

138,786

358,861

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES

126,323

148,593

2,754,035

NET INCREASE (DECREASE) IN CASH

5,000

509

6,190

CASH, BEGINNING OF PERIOD

1,190

243

-

CASH, END OF PERIOD

6,190

752

6,190

SUPPLEMENTAL CASH FLOW INFORMATION:

Related party note payable

-

-

			250,000
Net liabilities assumed with recapitalization	-	-	200,000
Divestiture of subsidiary to related party	-	-	544,340
Common stock issued for debt	62,600	2,927,000	1,211,600
Common stock issued for acquiring oil and gas leases	-	-	7,906,200
Issuance of common stock for assets	-	9,000	135,000

Issuance of preferred stock for services	-
	-
	1,000

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

CANNABIS SCIENCE, INC.

(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICICANT ACCOUNTING POLICIES

A. Organization and General Description of Business

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

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

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

The Company is in the business of developing pharmaceutical grade medical cannabis (marijuana) products. We are working with scientific experts on phytocannabinoid science targeting critical illnesses; adhering to scientific methodologies to develop, produce, and commercialize phytocannabinoid-based pharmaceutical products. In sum, the Company is dedicated to the creation of cannabis-based medicines, both with and without psychoactive properties, to treat disease and the symptoms of disease, as well as for general health maintenance.

Cannabis Science Inc. website is www.cannabisscience.com.

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

On May 8, 2010, the Company entered into a share purchase agreement to acquire Rockbrook, Inc., a Colorado dispensary in exchange for 400,000 restricted common shares in the Company.

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

On June 8, 2011, a new and non-exclusive license agreement was signed with Rockbrook. Under the terms of the new agreement, the Company will share revenues on a 50/50 basis with Rockbrook for any Company products sold through the Rockbrook dispensary. In addition, the Company is released from prior agreements and the world-wide exclusivity clause in the original license agreement, which will permit the Company to pursue other product license and sales agreements.

On August 10, 2011, the Company entered into a Memorandum of Understanding with Presciption Vending Machines, Inc. (PVM) to jointly promote and market the PVM products and services in Asia, Africa, North America, South America, Antarctica, Europe, and Australia/Oceania under a 50% / 50% gross profit sharing arrangement.

B. Basis of Presentation

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

C. Interim Financial Statement

These statements reflect all normal recurring adjustments, which, in the opinion of management, are necessary for the fair presentation of financial position, results of operations and cash flows for the periods presented. The accompanying financial statements should be read in conjunction with Cannabis Science Inc s financial statements for the years ended December 31, 2010 and 2009 filed in the Company s Form 10-K dated April 15, 2011, which includes all disclosures required by accounting principles generally accepted in the United States of America, or GAAP. The results of operations for the periods ended September 30, 2011 and 2010 are not necessarily indicative of expected operating results for the full year.

D. Use of Estimates

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

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

Under ASC 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods July 1, 2011 to September 30, 2011, January 1, 2011 to September 30, 2011, and from inception through September 30, 2011, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

F. Cash and Cash Equivalents

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

G. Fair Value Measurements

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

H. Income Taxes

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

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

I. Stock-Based Compensation

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

J. Development Stage Enterprise

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

K. Recent Accounting Pronouncements

During the year ended December 31, 2010 and through November 4, 2011, there were several new accounting pronouncements issued by the FASB the most recent of which was Accounting Standards Update 2011-09. Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company s financial statements.

L. Reclassifications

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

2. GOING CONCERN

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported an accumulated deficit of $68,139,436 and had a stockholder s deficit of $2,038,474 at September 30, 2011.

In view of the matters described, there is substantial doubt as to the Company's ability to continue as a going concern without a significant infusion of capital. At September 30, 2011, the Company had minimal operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We anticipate that we will have to raise additional capital to fund operations over the next 12 months. To the extent that we are required to raise additional funds to acquire research and growing facilities, and to cover costs of operations, we intend to do so through additional public or private offerings of debt or equity securities. There are no commitments or arrangements for other offerings in place, no guaranties that any such financings would be forthcoming, or as to the terms of any such financings. Any future financing may involve substantial dilution to existing investors. We had been relying on our common stock to pay third parties for services which has resulted in substantial dilution to existing investors.

3. RELATED PARTY TRANSACTIONS

As of September 30, 2011, a total of $156,818 (December 31, 2010: $107,835) was due to a related party. The amounts due are non-interest bearing, unsecured and have no specified terms of repayment. This related party also performs management services to the Company under a management consulting agreement signed on July 1, 2010.

4. NOTES PAYABLE

As of September 30, 2011, a total of $188,055 (December 31, 2010: $171,509) of notes payable are due to stockholders. A total of $9 is due to a stockholder under a convertible note that is non-interest bearing and has no specified terms of repayment. $188,046 is due to stockholders under promissory notes that are non-interested bearing and are due 12 months from the date of issue and loan origination beginning on July 30, 2011 through June 29, 2012. One of the stockholders, to whom $184,200 in promissory notes are payable, also performs business and accounting services for the Company on a month-to-month basis.

5. COMMON STOCK

During the three-months ended September 30, 2011, the Company issued the following common stock:

On July 26, 2011, the Company issued 1,400,000 common shares, with a fair market value of $0.04 per share, for settlement of $1,400 of shareholder debt assigned from the shareholder note payable originating on December 16, 2010 and owing at December 31, 2010.

On July 27, 2011, the Company issued 6,000,000 common shares, with a fair market value of $0.04 per share, for settlement of $6,000 of shareholder debt assigned from the shareholder note payable originating on July 9, 2010 and July 15, 2010 and owing at December 31, 2010.

On July 28, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.05 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on July 9, 2010 and owing at December 31, 2010.

On August 8, 2011, the Company issued 3,400,000 common shares, with a fair market value of $0.04 per share, for settlement of $3,400 of shareholder debt assigned from the shareholder note payable originating on December 16, 2010 and owing at December 31, 2010.

On August 16, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.04 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on August 16, 2010 and owing at December 31, 2010.

On September 6, 2011, the Company issued 3,500,000 common shares, with a fair market value of $0.03 per share, for settlement of $3,500 of shareholder debt assigned from the shareholder note payable originating on July 15, 2010 and owing at December 31, 2010.

On September 14, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.03 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on July 30, 2010 and owing at December 31, 2010.

On September 22, 2011, the Company issued 3,500,000 common shares with a fair market value of $105,000 to a consultant for services rendered to the Company; pursuant to a consulting agreement entered into on August 10, 2011 with services to be provided through August 31, 2013.

6. EQUIPMENT

Equipment	$ 1,117
Computer	28
	$ 1,145

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

7. INTANGIBLE ASSETS

Intellectual assets, primarily intellectual property	$ 126,000
Less accumulated amortization	73,125
	$ 52,875

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

8. COMMITMENTS

Payments due by period

Total

< 1 Year

1-3 Years

3-5Years

> 5 Years

	Operating Lease
	$237,711
	$47,841
	$101,651
	$88,219
	$0

On August 10, 2011, the Company signed a Consulting Agreement with a Consultant. Under the Agreement, the Company shall issue up to $250,000 of common shares, based on the current market price of the Company s stock, to the Consultant for services rendered from August 10, 2011 to August 31, 2013. On September 22, 2011 the Company issued 3,500,000 common shares as an initial payment under the Agreement.

9. SUBSEQUENT EVENTS

On October 4, 2011, the Company issued 6,500,000 common shares with a fair market value of $156,000 to two consultants for services rendered to the Company. 3,500,000 were issued to the same consultant that previously received shares on September 22, 2011 and 3,000,000 shares were issued to a consulting for services rendered to the Company for the period October 1, 2011 to September 30, 2012.

On October 12, 2011, the Company issued 8,000,000 common shares, with a fair market value of $0.022 per share, for settlement of $8,000 of shareholder debt assigned from the shareholder notes payable originating on July 9, 2010, July 15, 2010, and July 30, 2010 and owing at December 31, 2010.

On October 13, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.0224 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on March 2, 2011.

On October 13, 2011, the Company issued 4,500,000 common shares with a fair market value of $100,800 to a consultant for services rendered to the Company for the period October 15, 2011 to October 14, 2012.

On October 25, 2011, the Company issued 300,000 common shares with a fair market value of $0.02 per share for the settlement of $300 of shareholder debt assigned from the shareholder note payable originating on July 15, 2010 and owing at December 31, 2010.

On October 25, 2011, the Company issued 5,500,000 common shares with a fair market value of $0.03 per share for the settlement of $5,500 of shareholder debt assigned from the shareholder note payable originating on July 30, 2010 and August 5, 2010 and owing at December 31, 2010.

On November 4, 2011, the Company issued 30,000,000 common shares with a fair market value of $0.03 per share for the settlement of $5,500 of shareholder debt assigned from the shareholder note payable originating on September 2, 2010, September 17, 2010, and October 7, 2010 and owing at December 31, 2010.

Authorized Share Increase

On November 4, 2011, the Company filed a Certificate of Amendment to increase the authorized number of shares to 951 million comprised of: 100 million Class A Common Stock, 850 million Class B Common Stock, and 1 million Series A Preferred Stock.

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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.

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. and began acquired oil and gas leases for production.

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

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

The Company is in the business of developing pharmaceutical grade medical cannabis (marijuana) products. We are working with scientific experts on phytocannabinoid science targeting critical illnesses; adhering to scientific methodologies to develop, produce, and commercialize phytocannabinoid-based pharmaceutical products. In sum, the Company is dedicated to the creation of cannabis-based medicines, both with and without psychoactive properties, to treat disease and the symptoms of disease, as well as for general health maintenance.

On May 8, 2010, the Company entered into a share purchase agreement to acquire Rockbrook, Inc., a Colorado dispensary in exchange for 400,000 restricted common shares in the Company.

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

On June 8, 2011, a new and non-exclusive license agreement was signed with Rockbrook. Under the terms of the new agreement, the Company will share revenues on a 50/50 basis with Rockbrook for any Company products sold through the Rockbrook dispensary. In addition, the Company is released from prior agreements and the world-wide exclusivity clause in the original license agreement, which will permit the Company to pursue other product license and sales agreements.

On August 10, 2011, the Company entered into a Memorandum of Understanding with Presciption Vending Machines, Inc. (PVM) to jointly promote and market the PVM products and services in Asia, Africa, North America, South America, Antarctica, Europe, and Australia/Oceania under a 50% / 50% gross profit sharing arrangement.

Liquidity

The Company has a working capital deficit of $2,099,160 as of September 30, 2011 compared to a working capital deficit of $1,404,039 for the year ended December 31, 2010. There are insufficient liquid assets to meet current liabilities or sustain operations through 2011 and beyond and the Company must raise additional capital to cover the working capital deficit. Management is working on plans to raise additional capital through private placements and lending facilities.

The Company has promissory note payment commitments of $188,055 due to stockholders over the next 12 months through September 30, 2012.

Contractual Obligations

	Payments due by period				
	Total	< 1 Year	1-4 Years	3-5Years	> 5 Years
Operating Lease	$237,711	$47,841	$101,651	$88,219	$0

On October 14, 2011, the Company contact the landlord to negotiate a termination of its laboratory lease. The Company anticipates lease termination costs of approximately $43,000 to be paid over a four month period. The Company is currently seeking a more suitable location to conduct its laboratory and research and development operations.

On June 8, 2011, the Company signed a Consulting Agreement with a Consultant. Under the Agreement, the Company shall issue 1,500,000 144-restricted common shares to the Consultant upon successfully raising $1,000,000 at $0.10 per common share for the Company.

On August 10, 2011, the Company signed a Consulting Agreement with a Consultant. Under the Agreement, the Company shall issue up to $250,000 of common shares to the Consultant, based on the current market price of the Company s stock. As of September 30, 2011 the Company had issued 3,500,000 to the Consultant. Subsequent to the quarter ended September 30, 2011 the Company issued another 3,500,000 to Consultant. The Company estimates that it must issue approximately another 2,500,000 common shares to fulfill the $250,000 commitment under the Agreement.

Capital Resources

The Company has capital resource requirements for laboratory and scientific equipment of approximately $350,000 over the next 12 months. These capital disbursements are dependent on management s successful raising of capital through private placements and lending facilities.

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Results of Operations

The Company had license revenues of $0 and $73,334 for the three and nine month periods ended September 30, 2011, respectively, compared to $0 for both comparative prior year periods. These increases resulted from the Company s license agreement with Rockbrook signed on August 18, 2010 and the associated recognition of license fees paid by Rockbrook to the Company for the distribution of its products.

Net loss on settlement of liabilities decreased by $71,800 to $873,700 for the three months ended September 30, 2011 compared to $945,500 for the three months ended September 30, 2010. This decrease was due to the Company issuing more shares for the settlement of less debt and the lower corresponding fair market value of shares issued for settlement. For the nine months ended September 30, 2011 the net loss on settlement of liabilities increased by

$822,900 to $3,245,400 compared to $2,422,500 for the comparable prior year period. This increase was due to the Company issuing more shares for the settlement of less debt despite the lower corresponding fair market value of shares issued for settlement.

General and administrative expenses decreased by $951,564 to $463,324 for the three months ended September 30, 2011 compared to $1,414,888 for the three months ended September 30, 2010. General and administrative expenses increased by $561,068 to $2,649,683 for the nine months ended September 30, 2011 compared to $2,088,615 for the nine months ended September 30, 2010. The decrease for the three months ended September 30, 2011 as compared to the prior year period is due to one-time bonuses for new management consulting agreements signed on July 1, 2010 and increased management and consulting expense from stock issued to consultants for services rendered. The increase for the nine months ended September 30, 2011 as compared to the prior year period is due to increased management and consulting expenses, office, and laboratory rental expenses.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 4. CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, that our disclosure controls and procedures were not effective.

There were no changes in our internal controls or in other factors during the period covered by this report that have materially affected, or are likely to materially affect the Company s internal controls over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Not applicable.

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

During the three months ended September 30, 2011, we have issued securities using exemptions available under the Securities Act of 1933:

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

On July 26, 2011, the Company issued 1,400,000 common shares, with a fair market value of $0.04 per share, for settlement of $1,400 of shareholder debt assigned from the shareholder note payable originating on December 16, 2010 and owing at December 31, 2010.

On July 27, 2011, the Company issued 6,000,000 common shares, with a fair market value of $0.04 per share, for settlement of $6,000 of shareholder debt assigned from the shareholder note payable originating on July 9, 2010 and July 15, 2010 and owing at December 31, 2010.

On July 28, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.05 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on July 9, 2010 and owing at December 31, 2010.

On August 8, 2011, the Company issued 3,400,000 common shares, with a fair market value of $0.04 per share, for settlement of $3,400 of shareholder debt assigned from the shareholder note payable originating on December 16, 2010 and owing at December 31, 2010.

On August 16, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.04 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on August 16, 2010 and owing at December 31, 2010.

On September 6, 2011, the Company issued 3,500,000 common shares, with a fair market value of $0.03 per share, for settlement of $3,500 of shareholder debt assigned from the shareholder note payable originating on July 15, 2010 and owing at December 31, 2010.

On September 14, 2011, the Company issued 3,000,000 common shares, with a fair market value of $0.03 per share, for settlement of $3,000 of shareholder debt assigned from the shareholder note payable originating on July 30, 2010 and owing at December 31, 2010.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

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

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

EX-101.INS XBRL INSTANCE DOCUMENT EX-101.SCH XBRL TAXONOMY EXTENSION SCHEMA EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION LINKBASE EX-101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE EX-101.PRE XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE EX-101.DEF XBRL TAXONOMY EXTENSION DEFINITION LINKBASE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CANNABIS SCIENCE, INC.

Date:
November
21, 2011