

CANNABIS SCIENCE, INC.
Form 10-K
April 21, 2015

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

FORM 10-K

**[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the fiscal year ended **December 31, 2014**

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 000-28911

CANNABIS SCIENCE, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or Other Jurisdiction of Incorporation of Organization)

91-1869677
(I.R.S. Employer Identification No.)

6946 N Academy Blvd, Suite B #254

Colorado Springs, CO 80918
(Address of principal executive offices) (ZIP Code)

(888) 889-0888
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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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 shorter period that the registrant as required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **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). **Yes ☒ No ☐**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company **☒**

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

As of June 30, 2014, which was the last business day of the registrant's most recent second fiscal quarter, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was \$68,775,444 based on the closing sale price of \$0.098 per share on that date. For the purposes of the foregoing calculation only, all directors, executive officers, related parties and holders of more than 10% of the issued and outstanding common stock of the registrant have been deemed affiliates.

Number of common shares outstanding at April 17, 2015: 1,185,207,296

Number of common shares outstanding at December 31, 2014: 1,032,123,906

Number of Class A common shares outstanding at April 17, 2014: 0

PART I

ITEM 1. BUSINESS

Forward-looking Statements

This annual report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "will", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable laws, including the securities laws of the United States, we do not intend to update any of the forward-looking statements so as to conform these statements to actual results.

As used in this annual report, the terms "we", "us", "our", the Company, and "Cannabis Science" mean Cannabis Science, Inc., unless otherwise indicated.

All dollar amounts refer to U.S. dollars unless otherwise indicated.

Overview

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 April 6, 2009, the Company changed its name to Cannabis Science, Inc., and obtained a

new CUSIP number.

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

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.

ITEM 1A. RISK FACTORS

Not applicable.

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ITEM 2. PROPERTIES

We currently lease office space at 6946 N Academy Blvd, Suite B #254, Colorado Springs, CO 80918, on a month to month basis.

ITEM 3. LEGAL PROCEEDINGS

As of April 17, 2015, there are not any material pending legal proceedings, other than ordinary routine litigation incidental to our business or those operating under our acquired trade names GGECO University or Cannabis Consulting are a party or of which any of our properties is the subject.

In December 2014, the Company received an inquiry from FINRA regarding various business relationships, activities, and questions regarding the general business of the Company. The Company responded to the majority of questions in January 2015 and is working on other final responses.

In January 2015, the Company received threats of legal action by a former consultant. No subsequent legal action or proceedings have materialized against the Company and management is of the opinion that there is no merit in the action due to non-performance of services by the consultant.

Our management is not aware of any legal proceedings and/or inquiries contemplated by other any governmental authority against us.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is not traded on any exchange. Our common stock is quoted on the OTC Bulletin Board, under the trading symbol CBIS.OB. The market for our stock is highly volatile. We cannot assure you that there will be a market in the future for our common stock. The OTC Bulletin Board securities are not listed and traded on the floor of an organized national or regional stock exchange. Instead, OTC Bulletin Board securities transactions are conducted through a telephone and computer network connecting dealers in stocks. OTC Bulletin Board stocks are traditionally smaller companies that do not meet the financial and other listing requirements of a regional or national stock exchange.

The following table shows the high and low prices of our common shares on the OTC Bulletin Board for each quarter within the two most recent fiscal years. The following quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions:

| <u>Fiscal Year Ending December 2013</u> | <u>HIGH</u> | <u>LOW</u> |
|---|-------------|------------|
| Quarter Ending March 31, 2013 | 0.12 | 0.05 |
| Quarter Ending June 30, 2013 | 0.07 | 0.03 |
| Quarter Ending September 30, 2013 | 0.05 | 0.04 |
| Quarter Ending December 31, 2013 | 0.05 | 0.03 |

| <u>Fiscal Year Ending December 2014</u> | <u>HIGH</u> | <u>LOW</u> |
|---|-------------|------------|
| Quarter Ending March 31, 2014 | 0.29 | 0.06 |
| Quarter Ending June 30, 2014 | 0.13 | 0.07 |
| Quarter Ending September 30, 2014 | 0.09 | 0.05 |
| Quarter Ending December 31, 2014 | 0.09 | 0.04 |

Holders

As of December 31, 2014, there were 1,204 stockholders of record, including CEDE & Co., which holds shares for the beneficial interest of an unknown number of stockholders in brokerage accounts.

Dividends

The Company declared a dividend to all common stockholders of record as of December 31, 2010, whom are to receive a dividend equivalent to ten percent (10%) of the number of common shares of the Company's stock held on that date in the form of newly issued Series A common shares. For example, if a stockholder held 100,000 common shares on December 31, 2010, that stockholder would receive a dividend of 10,000 Series A common shares. This dividend is on hold and will remain pending until such time as FINRA approves the Company's Series A common stock for trading, it obtains a CUSIP registration number, it receives sponsorship from a brokerage firm, and the shares become tradable through the OTCBB market. The Company retains the right to adjust the shareholder record date should any factor make it impossible for the Company to issue the dividend to shareholders of record on December 31, 2010, including, but not limited to: approval of the Series A common stock and dividend by FINRA, a detailed December 31, 2010 common stockholder lists is available, or other unforeseen obstacles that would prevent the current dividend structure from completing. The Company will not make any share accrual or allowance for this dividend until such time as all regulatory approvals are in place for the Series A common stock to be issued and become a marketable security.

The Company does not anticipate paying cash dividends or making distributions in the foreseeable future.

We currently intend to retain and reinvest future earnings, if any, to finance and expand our operations.

Recent Sales of Unregistered Securities

During the fiscal year ended December 31, 2014, we sold the following shares in an unregistered offering:

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively "Offered Units"). Gross proceeds of \$1,000,000 under the private placement offering were received by the Company. The weighted-average fair value of warrants and related warrant

expense was estimated to be \$97,894 for the year ended December 31, 2014 using the Black-Scholes option valuation model.

As set out below, we have issued securities in exchange for services, properties and for debt, using exemptions available under the Securities Act of 1933.

During the year ended December 31, 2014, the Company issued stock pursuant to consulting agreements with several parties as follows:

On January 15, 2014, the Company issued 2,000,000 S-8 registered free trading shares of common stock with a fair market value of \$192,400 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 5,500,000 Rule 144 restricted shares of common stock with a fair market value of \$529,100 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 2,500,000 Rule 144 restricted shares of common stock with a fair market value of \$240,500 or \$0.0962 per share to Robert Kane, CFO as a bonus under prior management agreement.

On January 21, 2014, the Company issued 1,000,000 S-8 registered free-trading shares and 1,500,000 Rule 144 restricted shares of common stock to a consultant for services under a January 21, 2014 management agreement. The fair market value of the shares was \$0.1135 per share or \$283,750.

On January 24, 2014, the Company issued 5,000,000 S-8 registered free-trading shares of common stock to a marketing consultant for services under a December 18, 2013 consulting agreement. The fair market value of the shares was \$0.0312 per share or \$156,000.

On January 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$14,200 or \$0.142 per share to Dr. Richard Ogden, CSO for services for the month of January 2014 pursuant to his February 26, 2012 management agreement for services.

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On February 13, 2014, the Company entered into a partnership agreement with Michigan Green Technologies, LLC. Under the agreement, the Company participates in 20% of all net profit of the operating entity. In addition, the Company is working with its partner to active lobbying for the legalization of hemp and cannabis in Michigan which will lead to additional business opportunities for the Company through its partnership.

On February 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$17,700 or \$0.177 per share to Dr. Richard Ogden, CSO for services for the month of February 2014 pursuant to his February 26, 2012 management agreement for services.

On March 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$18,240 or \$0.1824 per share to Dr. Richard Ogden, CSO for services for the month of March 2014 pursuant to his February 26, 2012 management agreement for services.

On March 31, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates to March 31, 2015. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes.

On April 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$10,200 or \$0.102 per share to Dr. Richard Ogden, CSO for services for the month of April 2014 pursuant to his February 26, 2012 management agreement for services.

On April 26, 2014, the Company issued 1,300,000 S-8 registered free-trading shares of common stock with a fair market value of \$132,600 or \$0.102 per share to a consultant for services under a 6-month consulting agreement.

On April 30, 2014, the Company issued 1,500,000 S-8 registered free-trading shares of common stock with a fair market value of \$126,600 or \$0.0844 per share to each of Dorothy Bray, Chad S. Johnson, Robert Kane, and Mario Lap directors and officers of the Company for bonuses under prior management agreements.

On May 20, 2014, the Company entered into a one-year Scientific Advisor Consulting Agreement with Robert Melamede, Ph.D. Under the Agreement, Dr. Melamede will be compensated 250,000 Rule 144 restricted common shares with a fair market value of \$17,525. In addition, he was paid \$25,000 owed for accrued management fees within 30 days. 6,967,085 Rule 144 restricted common shares are to be issued for settlement of \$387,696 in accrued management fees and \$100,000 in bonuses.

On May 20, 2014, Robert Melamede, Ph.D. resigned as Director, Chairman of the Board of Directors, President, and director and officer positions in the Company's subsidiaries. Dr. Dorothy Bray assumed the role of interim President and was formally appointed as President and Chairperson of the Board of Directors on May 31, 2014.

On May 20, 2014, Bogat Family Trust (Raymond Dabney, Trustee) (Bogat) and Robert Melamede, Ph.D. (Melamede) entered into a Stock Purchase Agreement whereby Bogat purchased 500,000 Series A preferred shares from Melamede for par value of \$0.001 per share, or \$500. Upon completion of the transaction, Bogat owned 1,000,000 shares of Series A preferred stock representing all of the issued and outstanding Series A preferred shares giving Bogat approximately 57% cumulative voting control of the Company and 67% cumulative voting control as of August 12, 2014 when the Company filed an Amended Certificate of Designation for Series A preferred stock pursuant to a shareholder resolution signed by Bogat.

On May 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$8,090 or \$0.0809 per share to Dr. Richard Ogden, CSO for services for the month of May 2014 pursuant to his February 26, 2012 management agreement for services.

On June 1, 2014, the Company entered into a Senior Advisor Agreement with Dr. Roscoe M. Moore Jr. The Company agreed to issue to the consultant the equivalent of \$6,000 per month in Rule 144 restricted common stock that are to be issued each quarter. The Company agreed to issue 400,000 Rule 144 restricted shares of common stock within three months of signing the agreement.

On June 25, 2014, the Company issued 1,500,000 shares of common stock with a fair market value of \$150,000 or \$0.10 per share to Dr. Richard Ogden, CSO for services under a new two-year management agreement. The share issuance also satisfies prior consulting fees owing to Dr. Ogden totalling \$14,000 under his prior management agreement.

On June 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$9,990 or \$0.0999 per share to Dr. Richard Ogden, CSO for services for the month of June 2014 pursuant to his February 26, 2012 management agreement for services.

On September 28, 2014, the Company issued 10,000,000 shares of common stock with a fair market value of \$470,000 to ImmunoClin Limited for services pursuant to a 1-year laboratory services agreement to work on development of CBN formulations pursuant to the Unistraw JV.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to BHD Holdings pursuant to management agreement.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to Chad S. Johnson, director and COO pursuant to management agreements.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to MLS Lap BV pursuant to management agreement.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to Robert Kane pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Dr. Dorothy Bray pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Robert Kane pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Chad S. Johnson pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Mario Lap pursuant to management agreement.

On October 16, 2014, the Company issued 1,000,000 shares of Rule 144 restricted common stock with a fair market value of \$47,000 to Greta Gains pursuant to management agreement.

On October 16, 2014, the Company issued 2,500,000 shares of Rule 144 restricted common stock with a fair market value of \$117,500 to Dr. Roscoe Moore Jr. pursuant to amended management agreement.

On October 16, 2014, the Company issued 1,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$47,000 to Dr. Roscoe Moore Jr. pursuant to settle prior management fees owing.

On October 24, 2014, the Company issued 2,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$180,000 to Dr. James Macdonald pursuant to management agreement.

On November 5, 2014, the Company issued 2,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$174,750 to Nick Ayling pursuant to management agreement.

On November 5, 2014, the Company issued 15,000,000 shares of Rule 144 restricted common stock with a fair market value of \$1,048,500 to Raymond Dabney, President/CEO and director pursuant to management agreement.

On November 5, 2014, the Company issued 15,000,000 shares of Rule 144 restricted common stock with a fair market value of \$1,048,500 to BHD Holdings BV pursuant to management agreement.

On November 20, 2014, the Company issued 14,500,000 shares of Rule 144 restricted common stock with a fair market value of \$971,500 to Apothecary Genetics Investments, LLC pursuant to addendum to license agreement for services, increased royalties, and acquired land, building and equipment.

On November 20, 2014, the Company issued 11,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$770,500 to Bret Bogue pursuant to management agreement and addendum to license agreement with AGI.

On November 23, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$35,000 to Biodiversity pursuant to consulting agreement.

On November 25, 2014, the Company issued 2,500,000 shares of Rule 144 restricted common stock with a fair market value of \$154,500 to KBLH BV pursuant to consulting agreement.

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On November 25, 2014, the Company issued 2,500,000 shares of S8 registered free-trading common stock with a fair market value of \$154,500 to Khadija Benlhassan pursuant to consulting agreement.

On December 1, 2014, the Company issued 500,000 shares of S-8 registered free-trading common stock with a fair market value of \$29,500 to James Mills pursuant to consulting agreement.

On December 4, 2014, the Company issued 450,000 shares of S-8 registered free-trading common stock with a fair market value of \$26,100 to James Mills pursuant to consulting agreement.

On December 5, 2014, the Company issued 5,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$313,500 to Amandip Jagpal pursuant to addendum to consulting agreement.

On December 5, 2014, the Company issued 5,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$313,500 to Harpreet Hayer pursuant to addendum to consulting agreement.

During the year ended December 31, 2014, the Company issued stock pursuant to debt settlement agreements as follows:

On January 3, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$590,000, assigned from the stockholder notes payable originating on May 17, 2013.

On January 6, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$681,000, assigned from the stockholder notes payable originating on January 30, 2012.

On January 7, 2014, the Company issued 9,500,000 common shares for settlement of \$9,500 of stockholder debt, for a loss on settlement of \$845,500, assigned from the stockholder notes payable originating on May 17, 2013.

On October 3, 2014, the Company issued 35,000,000 common shares for settlement of \$35,000 of stockholder debt, for a loss on settlement of \$2,096,500, assigned from the stockholder notes payable originating on April 17, 2012 (\$15,000) and April 25, 2012 (\$20,000).

On December 18, 2014, the Company issued 20,000,000 common shares for settlement of \$35,000 of stockholder debt, for a loss on settlement of \$1,128,000, assigned from the stockholder notes payable originating on July 23, 2013.

The aforementioned shares for the settlement of debts were issued without legend under an exemption under Rule 144(b)(1) of the Act. Over six months has passed since the debts accrued on the books of the Company; the Seller is not now, and during the three month period preceding the transaction has not been considered an affiliate of the Company. Furthermore, pursuant to Rule 144(d)(1)(i) the Company is, and has been for a period of at least 90 days immediately before the proposed sale, subject to the reporting requirements of section 13 or 15(d) of the Securities and Exchange Act of 1934, and the proposed resale of the Shares in addition to the Company not being considered a shell company under Rule 144(i)(1). All relating shares were issued to settle the debts.

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ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. When used in this Form 10-K, the words "anticipate", "estimate", "expect", "project" and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks, uncertainties and assumptions including the possibility that the Company's proposed plan of operation will fail to generate projected revenues. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. The Company's actual results could differ materially from those set forth on the forward looking statements as a result of the risks set forth in the Company's filings with the Securities and Exchange Commission, general economic conditions, and changes in the assumptions used in making such forward looking statements.

General

The Company is committed to research and development of cannabis based medicines ("Products") and intends to pursue Independent New Drug certification, possibly under the Orphan Drug Act, for such treatments but faces two significant challenges in accomplishing this business objective, namely financing and government regulation.

The Company is undercapitalized, and will be reliant on outside financing from sales of securities or issuance of debt instruments. Management expects many traditional lenders will be reluctant to provide the Company with capital in light of its financial condition and the nature of its expected business; so that any financing activities will likely be expensive and result in dilution to stockholders of the Company. In this regard, it should be noted that the Asset Acquisition Agreement among Cannex, the Company and K & D Equity Investments, Inc. contains non-dilution provisions that provided additional shares to K & D in the event our shares are sold privately for less than \$1.00 per share. The Company can make no representation that financing for its business will be available, regardless of cost.

Furthermore, although cannabis has been used for medicinal purposes for over 5,000 years, there is a significant prejudice against development of smoked cannabis medical products amongst the medical and law enforcement communities. In spite of recent statements by the current administration that indicate a softening of these views, marijuana is still classified as a Class 1 controlled substance. The Company can provide no assurances that it can develop and market its intended product, or how long government approval, if obtained, will take.

Recent Developments

Cannabis Science has added several experts to its scientific advisor board and other offices to enable it to progress towards FDA trials and similar efforts in other countries with its three key drugs under development, namely CS-TATI-1 targeting both newly diagnosed and treatment-experienced patients with drug-resistant HIV strains, as well as those intolerant of currently available therapies, CS-S/BCC-1 targeting basal and squamous cell carcinomas, and a proprietary cannabis-based therapy for neurological conditions that was patented in 2013.

The Company established wholly owned subsidiaries in The Netherlands with an office in Haarlem, The Netherlands, to expand operations in Europe, including to enhance opportunities for studies and governmental approvals on an international basis.

The Company is laying a solid foundation for entrance into the FDA and other government regulatory agencies for developing medicines for cancer, autism, Influenza, PTSD and other ailments.

The Company's goal is the development of governmentally approved pharmaceuticals, including the aforementioned CS-TATI1, CS-S/BCC-1, and proprietary, patented neurological therapy currently under study or development. The

Company faces not only the challenges of other business at an early stage of development, but special problems arising from the nature of its own business. Notwithstanding, stockholders and prospective stockholders should recognize that any investment in our Company is risky and speculative, and could result in a total loss.

Results of Operations

Limited Revenues

During the fiscal year ended December 31, 2014 we generated license revenues of \$0 and educational and consulting revenue of \$1,031 compared to \$76,938 in license revenue and \$5,606 in educational and consulting revenues for the year ended December 31, 2013. As of December 31, 2014, we had an accumulated deficit of \$109,393,306. At this time, our ability to generate any significant revenues continues to be uncertain. There is substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Net Loss

Our net loss increased from \$5,934,301 for the fiscal year ended December 31, 2013 to \$16,884,764 for the fiscal year ended December 31, 2014 representing an increase of \$10,950,463. For the fiscal year ended December 31, 2014, our net loss per share was \$0.02, compared to a net loss per share of \$0.01 per share for the fiscal year ended December 31, 2013.

Expenses

Total operating expenses increased from \$5,753,137 for the fiscal year ended December 31, 2013 to \$15,887,336 for the fiscal year ended December 31, 2014 representing an increase of \$10,134,199.

Bad debt expense decreased from \$143,062 for the fiscal year ended December 31, 2013 resulting from a provision for uncollected license fees to \$0 for 2014.

Our professional fees decreased \$24,219 to \$90,048 for the fiscal year ended December 31, 2014 compared to \$114,267 for the fiscal year ended December 31, 2013. This decrease was due to reduced legal services under agreements and other legal associated with increase securities filing activity and business ventures.

The loss on settlement of liabilities increased from \$2,305,650 for the year ended December 31, 2013 to \$5,357,447 in 2014. This increase was due to increased settlement of liabilities through stock and resulting losses on the settlements. Our general and administrative expenses increased by \$6,816,407 from \$3,213,496 for the fiscal year ended December 31, 2013 to \$10,029,903 for fiscal year ended December 31, 2014. The increase in general and administrative expenses was mainly due to an increase in management and consulting fees relating to stock issued pursuant to agreements with management and consultants of the Company. Other general and administrative expenses consist of advertising, office supplies, transfer agent costs, travel expenses, rent, communication expenses (cellular, internet, fax, and telephone), office maintenance, courier and postage costs and office equipment.

Liquidity and Capital Resources

As of December 31, 2014, our current assets totaled \$410,326 which was comprised of \$10,061 in cash and cash equivalents, \$8,670 in other receivables, \$136,469 in accounts receivable-related party, \$97,626 in prepaid expenses, and \$157,500 in marketable securities. As of December 31, 2014, we had \$971,500 in deposits and total assets of \$1,381,826. As of December 31, 2014 we had a working capital deficit of \$3,544,953.

Our net loss of \$16,884,764 for the year ended December 31, 2014 was mostly funded by private placements of stock and debt financing. We expect to incur substantial losses over the next two years. During the fiscal year ended December 31, 2014 our cash position increased by \$9,118.

During the year ended December 31, 2014, we received net cash of \$562,548 from financing activities compared to \$446,595 for the same period in 2013. We used net cash of \$493,276 in operating activities for the fiscal year ended December 31, 2014 compared to \$432,467 for the same period in 2013. And we used net cash of \$60,154 in investing activities compared for the fiscal year ended December 31, 2014 compared to using net cash of \$36,745 for the same period in 2013.

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively Offered Units). Gross proceeds of \$1,000,000 under the private placement offering were received by the Company. The weighted-average fair value of warrants and related warrant expense was estimated to be \$97,894 for the year ended December 31, 2014 using the Black-Scholes option valuation model.

On March 31, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp. (IVC), to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates to March 31, 2015. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes. On July 1 and October 1, 2014, IVC assigned \$251,751 and \$420,000 in promissory notes to Intrinsic Capital Corp. (ICC), respectively. On November 1, 2014, IVC assigned a total of \$1,108,896 promissory notes to Embella Holdings Ltd. (EHL). As of April 1, 2015, the Company is in default on the promissory notes due and is negotiating with the debtor to extend the due dates and/or settle the debt. IVC, ICC, and EHL are all under common ownership.

The Company is currently not in good short-term financial standing. We anticipate that we may only generate any limited revenues in the near future and we will not have enough positive internal operating cash flow until we can generate substantial revenues, which may take the next two years to fully realize. There is no assurance we will achieve profitable operations. We have historically financed our operations primarily by cash flows generated from the sale of our equity securities and through cash infusions from officers and outside investors in exchange for debt and/or common stock.

Business Development

Our business and product development will follow two parallel paths. We will create cannabis pharmaceuticals with and without psychoactive properties. Both of these lines will have numerous proven health benefits for treating autism, blood pressure, cancer and cancer side effects, along with other illnesses, including for general health maintenance.

We are positioned to pursue the development of phytocannabinoid-based pharmaceutical grade products. The endocannabinoid system normally regulates blood pressure through its capacity to dilate blood vessels and reduce adrenergic stimuli. Additionally, there is a developing body of evidence that shows both the tumor killing properties of endo- and phyto- cannabinoids, and their ability to inhibit metastasis in a variety of cancers.

The Company is working to navigate the regulatory framework for its phytocannabinoid science towards developing cannabis-based therapeutics that will holistically promote health by restoring biochemical balance. By adhering to underlying scientific principles, the Company will manipulate all-pervasive phytocannabinoid processes to target a variety of disparate illnesses.

Cannabis Science is also positioning to explore insights that indicate an intrinsic link between novel cancer and HIV technologies and the cannabinoid system; with the goal of demonstrating that our pharmaceuticals will enhance biochemical markers that are indicative of a successful HIV therapy based on recent paradigm breaking discoveries.

The Company is currently focused on FDA approval of its first medical cannabis product targeted for veterans. Many veterans are already using herbal cannabis to self-medicate to relieve the symptoms of PTSD. Consequently, there is a clear need for standardized, FDA approved, oral cannabis products which can, and should be, provided to veterans and others who can benefit from its use. Medical cannabis has far fewer and milder side effects than most currently prescribed pharmaceutical products do. We are working hard to have one or more products ready for FDA clinical trials as soon as possible.

On February 9, 2012, the Company signed a license agreement with Apothecary 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 to investing \$250,000 in research and development in the first 24 months. Apothecary failed to meet several contract provisions including investing \$250,000 in R&D, setting up a laboratory facility, and reporting and remitting license fees owing to the Company. On November 20, 2014, the Company signed an amendment to the license agreement. Pursuant to the amendment, the Company is acquiring all property, building, and equipment of Apothecary in exchange for 14,500,000 Rule 144 restricted stock with a fair market value of \$971,500. The Company recorded an equivalent deposit for the year ended December 31, 2014 until the acquisition of assets closes, which is anticipated during fiscal 2015 once all assets are identified with supported fair market values and the transfer of land title is completed.

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 to the principals of GGECO.

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 with a fair market value of \$147,000 issued to the principal, Mr. Robert Kane.

On February 13, 2014, the Company entered into a partnership agreement with Michigan Green Technologies, LLC. Under the agreement, the Company participates in 20% of all net profit of the operating entity. In addition, the

Company is working with its partner to active lobbying for the legalization of hemp and cannabis in Michigan which will lead to additional business opportunities for the Company through its partnership.

The Company anticipates having to raise additional capital to fund operations over the next 12 months. To the extent that it is required to raise additional funds to acquire properties, and to cover costs of operations, the Company intends to do so through additional public or private offerings of debt or equity securities.

As of December 31, 2014, the Company had four directors/executives under management services contracts.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CANNABIS SCIENCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

C O N T E N T S

| | |
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| Consolidated Statements of Operations and Comprehensive Income (Loss) | F-3 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Cannabis Science, Inc.

We have audited the accompanying consolidated balance sheets of Cannabis Science, Inc. and its subsidiaries (the Company), as of December 31, 2014 and 2013 and the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cannabis Science, Inc. and its subsidiaries as of December 31, 2014 and 2013 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations since inception and has a working capital deficiency, both of which raise substantial doubt about its

ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Turner, Stone & Company, L.L.P.

Certified Public Accountants

Dallas, Texas

April 17, 2015

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CANNABIS SCIENCE, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2014 and 2013

| | December 31, 2014 \$ | December 31, 2013 \$ |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash | 10,061 | 943 |
| Other receivables | 8,670 | 697 |
| Prepaid expenses and deposits | 97,626 | - |
| Loans receivable, related party | 50,000 | 76,315 |
| Marketable securities (Note 3) | - | 225,000 |
| Total current assets | 166,357 | 302,955 |
| Computer and Equipment, net of accumulated depreciation of \$13,716 and \$12,200 (Note 9) | - | 1,516 |
| Deposits (Note 10) | 971,500 | - |
| Equity method investee (Note 11) | 243,969 | |
| Goodwill (Note 1) | - | 66,274 |
| Intangibles, net of accumulated amortization (Note 12) | - | 206,709 |
| TOTAL ASSETS | 1,381,826 | 577,454 |

LIABILITIES AND STOCKHOLDERS' DEFICIT**Current Liabilities**

| | | |
|--|------------------|------------------|
| Accounts payable | 153,094 | 165,839 |
| Accrued expenses, primarily management fees (Note 5) | 1,716,807 | 1,336,904 |
| Advances from related parties (Note 5) | 203,892 | 191,344 |
| Management bonuses | 300,000 | 300,000 |
| Notes payable to stockholders (Note 6) | 1,581,486 | 2,102,186 |
| Total current liabilities and total liabilities | 3,955,279 | 4,096,273 |

Stockholders' Deficit

Series A Preferred stock, \$0.001 par value, 1,000,000 shares

| | | |
|--|--------------------|--------------------|
| authorized, 1,000,000 shares issued and outstanding at December 31, 2014 and December 31, 2013 | 1,000 | 1,000 |
| Common stock, \$.001 par value, 850,000,000 shares authorized, 1,032,123,906 issued and outstanding as of December 31, 2014 and 770,523,906 at December 31, 2013 | 1,032,124 | 770,524 |
| Common stock, Class A, \$.001 par value, 100,000,000 shares authorized, 0 issued and outstanding as of December 31, 2014 and December 31, 2013 | - | - |
| Prepaid consulting | (4,448,696) | (3,553,296) |
| Additional paid-in capital | 110,256,424 | 91,771,495 |
| Accumulated deficit | (109,393,306) | (92,508,542) |
| Cumulative exchange translation | (20,999) | - |
| Total stockholders' deficit | (2,573,453) | (3,518,819) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | 1,381,826 | 577,454 |

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

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CANNABIS SCIENCE, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

| | 2014 | 2013 |
|----------------|-------|--------|
| | \$ | \$ |
| Revenue | 1,031 | 82,544 |

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| | | |
|--|---------------------|--------------------|
| Operating Expenses | | |
| Professional fees | 90,048 | 114,267 |
| Impairment loss on goodwill | 66,274 | - |
| Inventory write-down | - | 8,895 |
| Net loss on settlement of liabilities | 5,357,447 | 2,305,650 |
| Depreciation and amortization | 208,225 | 110,829 |
| Research and development | 135,439 | - |
| General and administrative | 10,029,903 | 3,213,496 |
| Total operating expenses | 15,887,336 | 5,753,137 |
| Net Operating Profit (Loss) | (15,886,305) | (5,670,593) |
| Other Income (Expense) | | |
| Interest income, net | - | 7 |
| Interest expense, net | (65) | (1,173) |
| Debt refinancing costs | (833,000) | |
| Gain on sale of JV assets | - | 262,250 |
| Gain on derecognized liabilities | - | 37,458 |
| Warrant expense | (97,894) | - |
| Unrealized gain (loss) on equity investee | (90,000) | - |
| Unrealized gain (loss) on marketable securities | 22,500 | (562,250) |
| Total other income (expense) | (998,459) | (263,708) |
| Net Loss | (16,884,764) | (5,934,301) |
| Other Comprehensive Income | - | - |
| Foreign exchange translation adjustment | (20,999) | - |
| Total other comprehensive income | (20,999) | - |
| Net Comprehensive Loss | (16,905,763) | (5,934,301) |
| Net loss per common share | | |
| - Basic and diluted | \$ (0.02) | \$ (0.01) |
| Weighted average number of common shares outstanding | 869,816,372 | 719,291,753 |

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

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY/(DEFICIT)

FOR THE PERIOD FROM December 31, 2012 to December 31, 2014

| | Common | Preferred | Additional Paid-in | Accumulated Deficit | Foreign Exchange Translation Deficit | Totals |
|--|-------------|-----------|-----------------------|------------------------|---|--------------------|
| | Shares | Par \$ | Shares \$ | Par \$ | Capital \$ | Consolidated \$ |
| Balance at December 31, 2012 | 663,790,573 | 663,791 | 666,667 | 86,604,888 | (80,704,241) | (8,965) |
| Common stock issued for services | 57,900,000 | 57,900 | -- | 2,304,362 | (1,891) | 1,009,630 |
| Common stock issued for debt | 48,000,000 | 48,000 | -- | 2,328,150 | - | 2,376,150 |
| Common stock issued for private placement | 833,333 | 833 | -- | 24,167 | - | 25,000 |
| Preferred stock issued for services | - | - | 333,333 | 499,500 | (1,002) | - |
| Amortization of prepaid consulting | - | - | -- | 1,173,667 | - | 1,173,667 |
| Net loss for the period | - | - | -- | (5,934,301) | - | (5,934,301) |
| Balance at December 31, 2013 | 770,523,906 | 770,524 | 1,000,000 | 91,782,508 | (82,508,541) | (8,819) |
| Common stock issued for services | 151,100,000 | 151,100 | -- | 10,120,555 | (2,065) | 5,713,070 |
| Common stock issued for settlement of liabilities and debt | 87,000,000 | 87,000 | -- | 5,486,000 | - | 5,573,000 |
| Common stock issued for debt extension | 5,000,000 | 5,000 | -- | 828,000 | - | 833,000 |
| Common stock issued for private placement | 4,000,000 | 4,000 | -- | 996,000 | - | 1,000,000 |

| | | | | | | |
|---|---------------|-----------|-----------|--------------|--------------|-------------|
| Common stock issued for deposit to acquire assets | 14,500,000 | 14,500 | -- | 957,000 | - | 971,500 |
| Extension of warrant expiry | - | - | -- | 97,894 | - | 97,894 |
| Amortization of shares issued for services | - | - | -- | 3,662,665 | 3,662,665 | |
| Net loss for the period | - | - | -- | (16,884,764) | (16,884,764) | |
| Foreign exchange translation | - | - | -- | - | (20,999) | (20,999) |
| Balance at December 31, 2014 | 1,032,123,906 | 1,032,124 | 1,000,000 | 110,256,419 | 110,256,419 | (2,599,953) |

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

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CANNABIS SCIENCE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED

DECEMBER 31, 2014 AND 2013

| | December 31, 2014 | December 31, 2013 |
|---|-------------------|-------------------|
| | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | (16,884,764) | (5,934,301) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation | 1,516 | 6,000 |
| Amortization | 206,709 | 104,829 |
| Stock issued for services | 9,375,735 | 2,183,297 |
| Stock issued for debt extension | 833,000 | - |
| Gain on joint ventures | - | (262,250) |
| Loss on equity investee | 90,000 | - |
| Gain on marketable securities | (22,500) | 562,250 |
| Loss on settlement of liability | 16,447 | - |
| Loss on settlement of debt | 5,341,000 | 2,305,650 |
| Loss on disposal of assets | - | 8,896 |
| Impairment loss on goodwill | 66,274 | - |

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| | | |
|---|------------|-----------|
| Warrant expense | 97,894 | - |
| Foreign exchange translation adjustment | (20,999) | - |
| Changes in operating assets and liabilities: | | |
| Other receivables | (7,973) | (697) |
| Prepaid expenses and deposits | (97,626) | 110 |
| Accounts payable | 755 | 546,896 |
| Accrued expenses, primarily management fees | 511,256 | 46,853 |
| NET CASH USED IN OPERATING ACTIVITIES | (493,276) | (432,467) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Equity investment in Endocan Corporation | (10,154) | - |
| Repayment from loans receivable, related parties | - | 10,663 |
| Advances receivable, related parties | (50,000) | (86,745) |
| Repayment from advances receivable, related party | - | 39,337 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | (60,154) | (36,745) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from advances from officers | 12,548 | - |
| Repayments of advances from officers | - | (1,702) |
| Proceeds from notes payable to stockholders | - | 369,000 |
| Repayments of notes payable to stockholders | (450,000) | (155) |
| Repayments of advances from related parties | - | (18,000) |
| Proceeds on advances from related parties | - | 72,452 |
| Proceeds from sale of common stock | 1,000,000 | 25,000 |
| CASH FLOWS PROVIDED BY FINANCING ACTIVITIES | 562,548 | 446,595 |
| NET INCREASE (DECREASE) IN CASH | 9,118 | (22,617) |
| CASH, BEGINNING OF PERIOD | 943 | 23,560 |
| CASH, END OF PERIOD | 10,061 | 943 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Common stock issued for services | 10,271,135 | 2,372,521 |
| Common stock issued for settlement of debt | 5,573,000 | 2,376,150 |
| Debt converted into common stock | 87,000 | 46,500 |
| Common stock issued for assets | 971,500 | - |
| Common stock issued for debt extension | 833,000 | - |
| Preferred stock issued for services | - | 500,002 |
| Equity investment in Endocan Corporation | 333,969 | - |
| Marketable securities acquired through sale of JVs | - | 262,250 |
| Accounts payable paid through note payable, stockholder | 13,500 | 517,992 |
| Accounts payable paid by related parties | - | 21,891 |
| Repayments from advances receivable, related party | - | 39,337 |
| Loans receivable, related party reduced by debt payment | - | 11,964 |
| Advances and accounts receivable, related party reduced by debt payment | - | 113,036 |
| Intangibles, CCI allocated to goodwill | - | 22,000 |
| Intangibles, CCI allocated to intangibles | - | 125,000 |

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

CANNABIS SCIENCE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

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. On April 6, 2009, the Company changed its name to Cannabis Science, Inc., and obtained a new CUSIP number.

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

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 formed two operating subsidiaries Cannabis Science BV and Cannabis Science International Holding BV in The Netherlands on May 10th and May 6th, 2013, respectively, to pursue business opportunities in Europe and worldwide. There are currently minimal operations in the subsidiaries. Agreements and business disclosures are in process.

On November 15, 2013, the Company submitted a patent application N2010968 in Europe entitled "Composition for the Treatment of Neurobehavioral Disorders." The subject of the patent is development of cannabinoid-based formulations to treat a variety of neurobehavioral disorders, such as attention deficit hyperactivity disorder (ADHD), anxiety, and sleep disorders.

On November 20, 2014, the Company signed an amendment to the license agreement with Apothecary Genetics Investments LLC. Pursuant to the amendment, the Company is acquiring all property, building, and equipment of Apothecary. The Company anticipated closing the purchase in fiscal 2015 once all assets are identified with supported fair market values and the transfer of land title is completed.

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 U.S. 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, 2014 were consolidated with the consolidated financial statements of the Company for the year ended December 31, 2014 and 2013. 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. Full impairment of GGECO was recognized and all goodwill was written off at December 31, 2014.

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 December 31, 2013 were consolidated with the consolidated financial statements of the Company. 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 to intangibles based on an internal valuation in addition to \$22,000 of goodwill. Full impairment of CCI was recognized and all goodwill was written off at December 31, 2014.

In 2012, the Company formed Cannabis Science Europe GmbH (CSE) to operate joint-venture operations with dupetit Natural Products Ltd. The JV asset was sold to Endocan Corporation (formerly X-Change Corporation) on December 12, 2012. No operations had commenced at the time of sale of the JV asset. For the year ended December 31, 2013, CSE had minimal expenditures in the normal course of winding up the entity subsequent to the disposal of the JV asset. The Company is in the process of dissolving CSE.

On May 6, 2013, the Company formed Cannabis Science International Holdings B.V. and on May 10, 2013, the Company formed Cannabis Science B.V. for the purpose of wholly-owned operating subsidiaries for the Company's European and world-wide operations. The Company has commenced some operating activities with cultivation in Spain and product development in 2014. Mario Lap, director of the Company and director and officer of Cannabis Science B.V. manages the day-to-day operations through his private companies MLS BV and MJR BV, both Netherlands registered companies.

On August 6, 2014, the Company signed a proposal letter with Michigan Green Technologies, LLC (MGT) to acquire an additional 30.1% equity in MGT that would increase the Company's equity ownership to 50.1%. As consideration for acquiring the additional 30.1% equity, the Company has agreed to issue shares to the principals and shareholders of MGT. Subsequent to the year ended December 31, 2014, the Company agreed to close the transaction with the principals of MGT under the proposal letter on February 20, 2015.

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 years ended December 31, 2014 and 2013, 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, Fair Value Measurements and Disclosures, 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 (see Note 4). The estimated fair value of other 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. Goodwill and Intangible Assets

Under ASC Topic 350 Intangibles-Goodwill and Other, goodwill is not amortized to expense, but rather that it is assessed or tested for impairment at least annually. Impairment write-downs are charged to results of operations in the period in which the impairment is determined. The Company did not identify any impairment on its outstanding goodwill from its most recent testing, which was performed as of October 1, 2014. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested for impairment when such events occur. Other acquired intangible assets with finite lives, such as customer lists, are required to be amortized over the estimated lives. These intangibles are generally amortized using the straight line method over estimated useful lives of five years. The Company determined full impairment on goodwill and recorded a charge of \$66,274 for the year ended December 31, 2014.

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 recorded an impairment loss on goodwill of \$66,274 for the year ended December 31, 2014 and recorded no impairment loss for year ended December 31, 2013 that was included in operating expenses and resulting net operating loss.

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J. Research and Development Expenses

Under ASC Topic 730 Research and Development, costs are expensed as incurred. These expenses include the costs of our proprietary R&D efforts, as well as costs incurred in connection with certain licensing arrangements. Before a compound receives regulatory approval, we record upfront and milestone payments made by us to third parties under licensing arrangements as expense. Upfront payments are recorded when incurred, and milestone payments are recorded when the specific milestone has been achieved. Once a compound receives regulatory approval, any milestone payments will be recorded as Identifiable intangible assets, less accumulated amortization and, unless the asset is determined to have an indefinite life, amortization of the payments will be on a straight-line basis over the remaining agreement term or the expected product life cycle, whichever is shorter. No identifiable intangible assets have been recorded as of December 31, 2014.

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

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.

The Company is working with its accountants to prepare and file overdue federal tax returns for 2008 through 2014, which are anticipated to be completed and filed in fiscal 2015.

L. Marketable Securities

Under ASC Topic 210; Regulation S-X 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.

N. Revenue Recognition

Revenue is recognized at the time the educational materials or online seminars are provided and billed to the customer and substantially all related obligations of the Company have been performed. 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. Recent Accounting Pronouncements

During the year ended December 31, 2014 and through April 17, 2015, there were several new accounting pronouncements issued by the FASB. 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.

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 \$109,393,306 and had a stockholders' deficit of \$2,573,453 at December 31, 2014.

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 December 31, 2014, the Company had insufficient operating revenues and cash flow to meet its financial obligations. There can be no assurance that management will be successful in implementing its plans. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We anticipate that we will have to raise additional capital to fund operations over the next 12 months. To the extent that we are required to raise additional funds to acquire research and growing facilities, and to cover costs of operations, we intend to do so through additional public or private offerings of debt or equity securities. There are no commitments or arrangements for other offerings in place, no guaranties that any such financings would be forthcoming, or as to the terms of any such financings.

Any future financing may involve substantial dilution to existing investors. We had been relying on our common stock to pay third parties for services which has resulted substantial dilution to existing investors.

3. MARKETABLE SECURITIES

See Note 5 for transaction details on 7,500,000 common shares in the Endocan Corporation (OTC: ENDO). The fair market value of marketable securities held by the Company at December 31, 2014 was \$0 (December 31, 2013: \$225,000). See Note 11 for accounting of this investment using the equity method pursuant to ASC 323 Investments Equity Method and Joint Ventures.

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 that the Company can access at the measurement date.

Level 2

Inputs to the valuation methodology are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. 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 inputs for the asset or liability.

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 December 31, 2014.

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

Intangibles from GGECO and CCI 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 December 31, 2014 and 2013.

| <u>December 31, 2013</u> | | | | |
|--|-----------------------|-----------------------|-----------------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investment in trading securities | \$ 225,000 | \$ - | \$ - | \$ 225,000 |
| Intangibles from acquisitions, GGECO and CCI, net of accumulated amortization | - | - | 237,480 | 237,480 |
| Total assets as of December 31, 2013 | \$ 225,000 | \$ - | \$ 237,480 | \$ 462,480 |

| <u>December 31, 2014</u> | | | | |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Investment in trading securities | \$ 157,500 | \$ - | \$ - | \$ 157,500 |
| Intangibles from acquisitions GGECO and CCI, net of accumulated amortization | - | - | - | - |
| Total assets as of December 31, 2014 | \$ 157,500 | \$ - | \$ - | \$ 157,500 |

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5. RELATED PARTY TRANSACTIONS

At December 31, 2014, a total of \$191,344 (December 31, 2013: \$191,344) in loans payable was due to Bogat Family Trust, Raymond Dabney the Company's Director and President/CEO as trustee.

At December 31, 2014, \$12,101 (December 31, 2013: \$0) was due to MLS Lap BV, owned by Mario Lap director and director and officer of EU subsidiaries.

At December 31, 2014, \$447 (December 31, 2013: \$0) was due to Robert Melamede, former CEO.

At December 31, 2014, the Company held 7,500,000 common shares in the Endocan Corporation (formerly X-Change Corporation) (OTCBB: ENDO) (Endocan) representing approximately 8.6% of the issued and outstanding shares of Endocan, 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 Endocan 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 Endocan under an Asset Purchase Agreement. The value of the shares at December 31, 2014 was determined to be \$0.021 per share or \$157,500 with the Company recording an unrealized gain of \$22,500 for the year ended December 31, 2014 and an unrealized loss of \$562,250 for the year ended December 31, 2013.

On November 5, 2014, the Company transitioned to equity method investee account for the Endocan shares pursuant to ASC 323 recording \$247,500 as the fair value of the shares to its equity method investee account. On December 31, 2014, the Company recorded an impairment on the equity method investee account of \$90,000 in relation to the shares. Robert Kane, CFO and director of the Company is also the CFO and a director of Endocan. Chad S. Johnson, Esq., COO, general counsel and a director is also a director and general counsel for Endocan. Raymond Dabney, CEO is the controlling shareholder of Endocan Corporation.

For the year ended December 31, 2014, the following related party stock-based compensation was recorded:

| Related Party | Position | Amount |
|-----------------------------|-------------------------|------------------|
| Raymond Dabney ¹ | CEO | \$ 1,091,115 |
| Dr. Dorothy Bray | Former CEO | 1,440,970 |
| Dr. Robert Melamede | Former CEO | 210,803 |
| Dr. Richard Ogden | CSO | 150,337 |
| Robert Kane | CFO | 815,350 |
| Chad S. Johnson, Esq. | COO and General Counsel | 1,292,600 |
| Mario Lap | Director | <u>1,362,600</u> |
| | | \$6,363,775 |

¹Including compensation to entities beneficially owned/control by the related parties

On October 29, 2014, the Company closed its trust account with Chae Law and paid all remaining funds in trust totaling \$54,778 to Old West Entertainment Corp. as instructed by Raymond Dabney, CEO, as payment of management fees owing to Mr. Dabney.

Raymond Dabney, CEO is a controlling shareholder and Chad S. Johnson, COO/General Legal Counsel of ImmunoClin Corporation (OTC: IMCL), respectively. ImmunoClin performs laboratory services and pharmaceutical development for the Company through its wholly-owned subsidiary ImmunoClin Limited that operates a laboratory at the London Biosciences Centre.

See Note 8 -Equity Transactions for details of stock issuances to director and officers for services.

Mario Lap, a director of the Company and director and officer its European subsidiaries, is conducting various business activities of the Company in Spain under his personal name and/or his personal holding companies MJR BV and MLS Lap BV until such time as the Company is able to establish a Spanish subsidiary to conduct its own business operations and activities, including but not limited to: operating lease for farms, asset purchases, office and equipment, personnel employment and other business and operating activities as may be required from time-to-time. The Company anticipates having the Spanish subsidiary setup in fiscal 2015 at which time Mario Lap under fiduciary duty will transfer all business operating activities, agreements, and assets to the Company.

Notes payable to Intrinsic Venture Corp. totaled \$0 and \$1,831,969 at December 31, 2014 and 2013, respectively. On July 1, 2014, IVC assigned a total of \$251,371 promissory notes payable by the Company to Intrinsic Capital Corp. On October 1, 2014, IVC assigned a total of \$420,000 promissory notes payable by the Company to Intrinsic Capital Corp. On November 1, 2014, IVC assigned a total of \$1,108,896 promissory notes to Embella Holdings Ltd. Notes payable to Embella Holdings Ltd. totaled \$1,108,896 and \$0 at December 31, 2014 and 2013, respectively. As of April 1, 2015, the Company is in default on the promissory notes due and is negotiating with the debtor to extend the date.

Notes payable to Intrinsic Capital Corp. totaled \$302,088 and \$120,217 at December 31, 2014 and 2013, respectively. See Note 6.

Notes payable to Richard Cowan, former director and CFO totaled \$150,000 and \$0 at December 31, 2014 and 2013, respectively. See Note 6.

On July 25, 2014, Bogat Family Trust, Raymond Dabney trustee, representing a majority of Series A preferred stockholders, signed a resolution to approve an amendment to the certificate of designation preferences and rights for Series A preferred shares. Pursuant to the amendment filed with the Nevada Secretary of State, the voting rights of Series A preferred stockholders was changed from 1,000 votes per share to 67% of the total vote on all shareholder matters. No common stockholders voted on this amendment.

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6. NOTES PAYABLE

As of December 31, 2014, a total of \$1,581,486 (December 31, 2013: \$2,102,186) 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 July 23, 2014 through March 31, 2015. Promissory notes totaling \$72,987 were in default on December 31, 2014. \$150,000 in promissory notes is due to Richard Cowan, former director and CFO of the Company. On January 15, 2015, the Company entered into a debt settlement agreement and issued 15,000,000 shares of common stock on April 7, 2015 to settle the debt owed to Cowan. All promissory notes are unsecured.

On March 31, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates to March 31, 2015. The Company agreed to issue 5,000,000 Rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes. On July 1 and October 1, 2014, IVC assigned \$251,751 and \$420,000 in promissory notes to Intrinsic Capital Corp. (ICC), respectively. On November 1, 2014, IVC assigned a total of \$1,108,896 promissory notes to Embella Holdings Ltd. (EHL). As of April 1, 2015, the Company is in default on the promissory notes due and is negotiating with the debtor to extend the due dates and/or settle the debt. IVC, ICC, and EHL are all under common ownership.

7. INCOME TAXES

Deferred income taxes are reported using the liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Current year and accumulated deferred tax benefit at the effective Federal income tax rate of 34% is \$20,367,959 (in addition to the pre-acquisition annual limitation carry-forward discussed in the following paragraph), and a valuation allowance has been set up for the full amount because of the unlikelihood that the accumulated deferred tax benefit will be realized in the future.

At December 31, 2014 and 2013, the Company had available federal and state net operating loss (NOL) carryforwards amounting to approximately \$59,900,000 and \$43,000,000, respectively, that are available to offset future federal and state taxable income and that expire in various periods through 2034 for federal tax purposes and 2019 for state tax purposes. No benefit has been recorded for the loss carryforwards, and utilization in future years may be limited under Sections 382 and 383 of the Internal Revenue Code if significant ownership changes have occurred or from future tax legislation changes.

The following table sets forth the significant components of the net deferred tax assets for operations in the US as of December 31, 2014 and 2013.

| | 2014 | 2013 |
|---------------------------|-----------------|-----------------|
| Deferred tax assets: | | |
| NOL expense (benefit) | \$ (20,367,959) | \$ (14,599,039) |
| Less: valuation allowance | 20,367,959 | 14,599,039 |
| Net deferred tax assets | \$ - | \$ - |

A reconciliation of income tax expense at the statutory federal rate of 34% to income tax expense at the Company's effective tax rate for the years ended December 31, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|--|--------------------|--------------------|
| Income tax expense (benefit) at statutory federal rate | \$ (5,747,959) 34% | \$ (2,017,662) 34% |
| State income taxes | | |
| NOL limitation (Note 3) | | |
| Increase (decrease) in valuation allowance | 5,747,959 -34% | 2,017,662 -34% |
| Income tax expense (benefit) at Company's effective tax rate | \$ - 0% | \$ - 0% |

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8. 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 1,032,123,906 and 770,523,906 issued and outstanding as of December 31, 2014 and 2013, respectively.

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 December 31, 2014 and 2013.

The Company is also authorized to issue 1,000,000 shares of preferred stock. These shares have full voting rights of 67% on all shareholder matters pursuant to amended certificate of designation filed with the Nevada Secretary of State. There were 1,000,000 issued and outstanding as of December 31, 2014 and 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

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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. As of December 31, 2014, the Company has issued 47,250,000 common shares as compensation under the plan to various executives and consultants of the Company.

On April 28, 2014, the Company filed a Form S-8 (file no. 333-195510) registering 6,500,000 common shares under a 2014 Stock Compensation Plan A. As of December 31, 2014, the Company has issued 6,000,000 common shares as compensation under the plan to various executives and consultants of the Company.

On July 25, 2014, Bogat Family Trust, Raymond Dabney trustee, representing a majority of Series A preferred stockholders, signed a shareholder resolution to approve an amendment to the certificate of designation preferences and rights for Series A preferred shares. Pursuant to the amendment filed with the Nevada Secretary of State, the voting rights of Series A preferred stockholders was changed from 1,000 votes per share to 67% of the total vote on all shareholder matters. No common stockholders voted on this resolution or amendment.

On September 22, 2014, the Company filed a Certificate of Amendment with the Nevada Secretary of State to increase its authorized from 951,000,000 to 1,601,000,000 shares. The number of authorized shares of common stock increased from 850,000,000 to 1,500,000,000.

On October 10, 2014, the Company filed a Form S-8 (file no. 333-199251) registering 6,500,000 common shares under a 2014 Stock Compensation Plan B. As of December 31, 2014, the Company has issued 6,000,000 common shares as compensation under the plan to various executives and consultants of the Company.

On December 5, 2014, the Company filed a Form S-8 (file no. 333-200747) registering 50,000,000 common shares under a 2014 Stock Compensation Plan C. As of December 31, 2014, the Company has issued 39,960,310 common shares as compensation under the plan to various executives and consultants of the Company.

During the year ended December 31, 2014, the Company issued the following common stock:

During the fiscal year ended December 31, 2014, we sold the following shares in an unregistered offering:

On March 8, 2014, the Company issued a private placement offering for 4,000,000 units at \$0.25 per unit. Each unit is comprised of one share of common stock and one non-transferable warrant with each one warrant to purchase one share of the Company's common stock at an exercise price of \$0.50. The warrants shall expire 2 years from the date of issuance of the warrant certificate (collectively "Offered Units"). Gross proceeds of \$1,000,000 under the private

placement offering were received by the Company. The weighted-average fair value of warrants and related warrant expense was estimated to be \$97,894 for the year ended December 31, 2014 using the Black-Scholes option valuation model.

As set out below, we have issued securities in exchange for services, properties and for debt, using exemptions available under the Securities Act of 1933.

During the year ended December 31, 2014, the Company issued stock pursuant to consulting agreements with several parties as follows:

On January 15, 2014, the Company issued 2,000,000 S-8 registered free trading shares of common stock with a fair market value of \$192,400 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 5,500,000 Rule 144 restricted shares of common stock with a fair market value of \$529,100 or \$0.0962 per share to each of Dr. Dorothy Bray, CEO, Chad S. Johnson, COO and General Counsel, and Mario Lap, Director for bonuses under prior management agreements.

On January 15, 2014, the Company issued 2,500,000 Rule 144 restricted shares of common stock with a fair market value of \$240,500 or \$0.0962 per share to Robert Kane, CFO as a bonus under prior management agreement.

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On January 21, 2014, the Company issued 1,000,000 S-8 registered free-trading shares and 1,500,000 Rule 144 restricted shares of common stock to a consultant for services under a January 21, 2014 management agreement. The fair market value of the shares was \$0.1135 per share or \$283,750.

On January 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$14,200 or \$0.142 per share to Dr. Richard Ogden, CSO for services for the month of January 2014 pursuant to his February 26, 2012 management agreement for services.

On February 13, 2014, the Company entered into a partnership agreement with Michigan Green Technologies, LLC. Under the agreement, the Company participates in 20% of all net profit of the operating entity. In addition, the Company is working with its partner to active lobbying for the legalization of hemp and cannabis in Michigan which will lead to additional business opportunities for the Company through its partnership.

On February 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$17,700 or \$0.177 per share to Dr. Richard Ogden, CSO for services for the month of February 2014 pursuant to his February 26,

2012 management agreement for services.

On March 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$18,240 or \$0.1824 per share to Dr. Richard Ogden, CSO for services for the month of March 2014 pursuant to his February 26, 2012 management agreement for services.

On March 31, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates to March 31, 2015. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes.

On April 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$10,200 or \$0.102 per share to Dr. Richard Ogden, CSO for services for the month of April 2014 pursuant to his February 26, 2012 management agreement for services.

On April 26, 2014, the Company issued 1,300,000 S-8 registered free-trading shares of common stock with a fair market value of \$125,190 or \$0.0963 per share to a consultant for services under a 6-month consulting agreement.

On April 30, 2014, the Company issued 1,500,000 S-8 registered free-trading shares of common stock with a fair market value of \$126,600 or \$0.0844 per share to each of Dorothy Bray, Chad S. Johnson, Robert Kane, and Mario Lap directors and officers of the Company for bonuses under prior management agreements.

On May 20, 2014, the Company entered into a one-year Scientific Advisor Consulting Agreement with Robert Melamede, Ph.D. Under the Agreement, Dr. Melamede will be compensated 250,000 Rule 144 restricted common shares with a fair market value of \$17,525. In addition, he was paid \$25,000 owed for accrued management fees within 30 days. 6,967,085 Rule 144 restricted common shares are to be issued for settlement of \$387,696 in accrued management fees and \$100,000 in bonuses.

On May 20, 2014, Robert Melamede, Ph.D. resigned as Director, Chairman of the Board of Directors, President, and director and officer positions in the Company's subsidiaries. Dr. Dorothy Bray assumed the role of interim President and was formally appointed as President and Chairperson of the Board of Directors on May 31, 2014.

On May 20, 2014, Bogat Family Trust (Raymond Dabney, Trustee) (Bogat) and Robert Melamede, Ph.D. (Melamede) entered into a Stock Purchase Agreement whereby Bogat purchased 500,000 Series A preferred shares from Melamede for par value of \$0.001 per share, or \$500. Upon completion of the transaction, Bogat owned 1,000,000

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shares of Series A preferred stock representing all of the issued and outstanding Series A preferred shares giving Bogat approximately 57% cumulative voting control of the Company and 67% cumulative voting control as of August 12, 2014 when the Company filed an Amended Certificate of Designation for Series A preferred stock.

On May 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$8,090 or \$0.0809 per share to Dr. Richard Ogden, CSO for services for the month of May 2014 pursuant to his February 26, 2012 management agreement for services.

On June 1, 2014, the Company entered in to a Senior Advisor Agreement with Dr. Roscoe M. Moore Jr. The Company agreed to issue to the consultant the equivalent of \$6,000 per month in Rule 144 restricted common stock that are to be issued each quarter. The Company agreed to issue 400,000 Rule 144 restricted shares of common stock within three months of signing the agreement.

On June 25, 2014, the Company issued 1,500,000 shares of common stock with a fair market value of \$150,000 or \$0.10 per share to Dr. Richard Ogden, CSO for services under a new two-year management agreement. The share issuance also satisfies prior consulting fees owing to Dr. Ogden totalling \$14,000 under his prior management agreement.

On June 26, 2014, the Company issued 100,000 shares of common stock with a fair market value of \$9,990 or \$0.0999 per share to Dr. Richard Ogden, CSO for services for the month of June 2014 pursuant to his February 26, 2012 management agreement for services.

On September 28, 2014, the Company issued 10,000,000 shares of common stock with a fair market value of \$470,000 to ImmunoClin Limited for services pursuant to a 1-year laboratory services agreement to work on development of CBN formulations pursuant to the Unistraw JV.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to BHD Holdings pursuant to management agreement.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to Chad S. Johnson, director and COO pursuant to management agreements.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to MLS Lap BV pursuant to management agreement.

On October 16, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$235,000 to Robert Kane pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Dr. Dorothy Bray pursuant to management agreement.

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On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Robert Kane pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Chad S. Johnson pursuant to management agreement.

On October 16, 2014, the Company issued 3,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$164,500 to Mario Lap pursuant to management agreement.

On October 16, 2014, the Company issued 1,000,000 shares of Rule 144 restricted common stock with a fair market value of \$47,000 to Greta Gains pursuant to management agreement.

On October 16, 2014, the Company issued 2,500,000 shares of Rule 144 restricted common stock with a fair market value of \$117,500 to Dr. Roscoe Moore Jr. pursuant to amended management agreement.

On October 16, 2014, the Company issued 1,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$47,000 to Dr. Roscoe Moore Jr. pursuant to settle prior management fees owing.

On October 24, 2014, the Company issued 2,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$180,000 to Dr. James Macdonald pursuant to management agreement.

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On November 5, 2014, the Company issued 2,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$174,750 to Nick Ayling pursuant to management agreement.

On November 5, 2014, the Company issued 15,000,000 shares of Rule 144 restricted common stock with a fair market value of \$1,048,500 to Raymond Dabney, President/CEO and director pursuant to management agreement.

On November 20, 2014, the Company issued 14,500,000 shares of Rule 144 restricted common stock with a fair market value of \$971,500 to Apothecary Genetics Investments, LLC pursuant to addendum to license agreement for services, increased royalties, and acquired land, building and equipment.

On November 20, 2014, the Company issued 11,500,000 shares of S-8 registered free-trading common stock with a fair market value of \$770,500 to Bret Bogue pursuant to management agreement and addendum to license agreement with AGI.

On November 23, 2014, the Company issued 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$35,000 to Biodiversity pursuant to consulting agreement.

On November 25, 2014, the Company issued 2,500,000 shares of Rule 144 restricted common stock with a fair market value of \$154,500 to KBLH BV pursuant to consulting agreement.

On November 25, 2014, the Company issued 2,500,000 shares of S8 registered free-trading common stock with a fair market value of \$154,500 to Khadija Benlhassan pursuant to consulting agreement.

On December 1, 2014, the Company issued 500,000 shares of S-8 registered free-trading common stock with a fair market value of \$29,500 to James Mills pursuant to consulting agreement.

On December 4, 2014, the Company issued 450,000 shares of S-8 registered free-trading common stock with a fair market value of \$26,100 to James Mills pursuant to consulting agreement.

On December 5, 2014, the Company issued 5,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$313,500 to Amandip Jagpal pursuant to addendum to consulting agreement.

On December 5, 2014, the Company issued 5,000,000 shares of S-8 registered free-trading common stock with a fair market value of \$313,500 to Harpreet Hayer pursuant to addendum to consulting agreement.

During the year ended December 31, 2014, the Company issued stock pursuant to debt settlement agreements as follows:

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On January 3, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$590,000, assigned from the stockholder notes payable originating on May 17, 2013.

On January 6, 2014, the Company issued 10,000,000 common shares for settlement of \$10,000 of stockholder debt, for a loss on settlement of \$681,000, assigned from the stockholder notes payable originating on January 30, 2012.

On January 7, 2014, the Company issued 9,500,000 common shares for settlement of \$9,500 of stockholder debt, for a loss on settlement of \$845,500, assigned from the stockholder notes payable originating on May 17, 2013.

On October 3, 2014, the Company issued 35,000,000 common shares for settlement of \$35,000 of stockholder debt, for a loss on settlement of \$2,096,500, assigned from the stockholder notes payable originating on April 17, 2012 (\$15,000) and April 25, 2012 (\$20,000).

On December 18, 2014, the Company issued 20,000,000 common shares for settlement of \$20,000 of stockholder debt, for a loss on settlement of \$1,128,000, assigned from the stockholder notes payable originating on July 23, 2013.

The aforementioned shares for the settlement of debts were issued without legend under an exemption under Rule 144(b)(1) of the Act. Over six months has passed since the debts accrued on the books of the Company; the Seller is not now, and during the three month period preceding the transaction has not been considered an affiliate of the Company. Furthermore, pursuant to Rule 144(d)(1)(i) the Company is, and has been for a period of at least 90 days immediately before the proposed sale, subject to the reporting requirements of section 13 or 15(d) of the Securities and Exchange Act of 1934, and the proposed resale of the Shares in addition to the Company not being considered a shell company under Rule 144(i)(1). All relating shares were issued to settle the debts.

On March 31, 2014, the Company entered into a Debt Extension Agreement with Intrinsic Venture Corp., to avoid default on approximately \$1.8 million in promissory notes due, to extend due dates to March 31, 2015. The Company agreed to issue 5,000,000 rule 144 restricted shares of common stock with a fair market value of \$0.1666 per share or \$833,000 as consideration for the extensions on the aforementioned promissory notes.

Stock Options:

The following options were issued to the Company's V.P of investor relations, CFO and Director for services under a September 16, 2011 agreement:

(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 twenty cents (\$0.20) per share;

(iii)

the option to purchase 500,000 common shares at thirty five cents (\$0.35) per share; and

(iv)

the option to purchase 1,000,000 common shares at fifty cents (\$0.50) per share.

A summary of the status of the Company's option grants as of December 31, 2014 and the changes during the period then ended is presented below:

| | Shares | Weighted-Average Exercise Price | |
|--|-----------|------------------------------------|------|
| Outstanding December 31, 2013 | 1,700,000 | \$ | 0.41 |
| Granted | | | |
| Exercised | | | |
| Expired | | | |
| Outstanding December 31, 2014 | 1,700,000 | \$ | 0.41 |
| Options exercisable at December 31, 2014 | 1,700,000 | \$ | 0.41 |

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These options do not expire and continue indefinitely for the duration of existing management agreement and services thereunder with Robert Kane. The weighted average fair value at date of grant for options during year ended December 31, 2014 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% |

9. EQUIPMENT

| Value | Accumulated | | Net Book | |
|-------------------------|---------------------|---------------------|-------------------|-------------------|
| | Cost | Depreciation | December 31, 2014 | December 31, 2013 |
| <u>2013</u> | | | | |
| Equipment | \$ 3,000 | \$ 3,000 | \$ - | |
| \$ - | | | | |
| Laboratory equipment | - | - | - | |
| - | | | | |
| Software | 5,000 | 5,000 | - | |
| 1,516 | | | | |
| <u>Computers</u> | <u>5,716</u> | <u>5,716</u> | <u>-</u> | |
| <u>-</u> | | | | |
| | \$ 13,716 | \$ 13,716 | \$ - | \$ - |
| <u>1,516</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.

10. DEPOSITS

On February 9, 2012, the Company signed a license agreement with Apothecary 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 to investing \$250,000 in research and development in the first 24 months. Apothecary failed to meet several contract provisions including investing \$250,000 in R&D, setting up a laboratory facility, and reporting and remitting license fees owing to the Company. On November 20, 2014, the Company signed an amendment to the license agreement. Pursuant to the amendment, the Company is acquiring all property, building, and equipment of Apothecary in exchange for 14,500,000 Rule 144 restricted stock with a fair market value of \$971,500. The Company recorded an equivalent deposit for the year ended December 31, 2014 until the acquisition of assets closes, which is anticipated during fiscal 2015 once all assets are identified with supported fair market values and the transfer of land title is completed.

11. EQUITY METHOD INVESTEE

On November 5, 2014, the Company accounted for its investment and loans in Endocan Corporation using the equity method pursuant to ASC 323 Investments Equity Method and Joint Ventures. In accordance with ASC 323, when the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies, the Company accounts for its investment in accordance with the equity method of accounting. This generally applies to cases in which the Company owns a voting or economic interest of between 20 and 50 percent.

The accounting using the equity method is in conjunction with appointment of Raymond Dabney as CEO and director of the Company on November 5, 2014, in addition to Mr. Dabney being a controlling shareholder of the Company since September 2009 and a controlling shareholder of Endocan Corporation since June 2013. Therefore, the Company was deemed to have significant influence and control of Endocan Corporation.

On November 5, 2014, the Company recorded \$247,500 in marketable securities and \$86,469 in loans to Endocan Corporation to its equity method investee account in accordance with ASC 323. An impairment on the equity method investee account of \$90,000 was recognized for the year ended December 31, 2014 due to the non-temporary decline in the value of Endocan marketable securities.

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12. INTANGIBLE ASSETS

| | December 31, 2014 | December 31, 2013 |
|--|----------------------|-------------------|
| Intellectual assets, primarily intellectual property | \$ 445,299 | \$ 445,299 |
| Less accumulated amortization | <u>(445,299)</u> | <u>(238,590)</u> |
| Total intangible assets, net | <u>\$ -</u> | <u>\$ 206,709</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).

The Company determined impairment and fully amortized all intangibles at December 31, 2014.

13. SUBSEQUENT EVENTS

Subsequent to the year ended December 31, 2014, the following transactions occurred:

On January 1, 2015, the Company effectively issued 5,000,000 Rule 144 restricted shares of common stock with a fair market value of \$349,500 to two consultant for services under 2014 agreements.

On January 1, 2015, the Company issued 6,000,000 Rule 144 restricted shares of common stock to Intrinsic Venture Corp. for settlement of \$300,000 of accounts payable, for a loss on settlement of \$119,400.

On January 1, 2015, the Company issued 5,000,000 Rule 144 restricted shares of common stock with a fair market value of \$349,500 to Chad S. Johnson, COO/General Legal Counsel for services under a November 25, 2014 management agreement.

On January 1, 2015, the Company entered into an agreement and issued 545,000 shares of S8 registered free-trading common stock with a fair market value of \$29,485 to a consultant for services.

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On January 15, 2015, the Company entered into an agreement and issued 15,000,000 shares of Rule 144 restricted common stock with a fair market value of \$997,500 to Richard Cowan, former CFO for services.

On January 15, 2015, the Company issued 10,000,000 shares of common stock to an accredited investor at \$0.25 under a private placement. Gross proceeds of \$250,000 were received by the Company.

On January 15, 2015, the Company issued 15,000,000 shares of Rule 144 restricted common stock with a fair market value of \$997,500 for settlement of \$150,000 in liabilities for loss on settlement of \$847,500.

On January 18, 2015, Mario Lap, the Company's director and director and officer of EU subsidiaries, loaned \$4,031 to Cannabis Science BV a wholly-owned subsidiary of the Company.

On January 20, 2015, the Company entered into an agreement and issued 5,000,000 shares of Rule 144 restricted common stock with a fair market and 8,240,310 shares of S8 registered free-trading common stock with a fair market value of to Robert Kane, CFO for services.

On January 29, 2015, the Company paid \$120,000 in cash to Old West Entertainment Corp. as instructed by Raymond Dabney, CEO, as payment of management fees owing to Mr. Dabney.

On January 31, 2015, the Company issued 2,726,000 shares of S8 registered common stock with a fair market value of \$158,926 to Dr. Dorothy Bray, former CEO, for services under November 5, 2014 agreement.

On January 31, 2015, the Company issued 2,726,000 shares of S8 registered common stock with a fair market value of \$158,926 to Raymond Dabney, CEO, for services under November 5, 2014 agreement.

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On January 31, 2015, the Company issued 4,318,000 shares S8 registered free-trading common stock with a fair market value of \$30,000 to Chad S. Johnson, COO/General for services under November 25, 2014 agreement.

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On February 20, 2015, the Company issued 30,828,080 common shares for settlement of \$30,828 of stockholder debt with Intrinsic Capital Corp., for a loss on settlement of \$1,510,576, from the stockholder notes payable originating on July 23, 2013 (\$18,328), August 15, 2013 (\$1,250), August 30, 2013 (\$1,250), and September 9, 2013 (\$10,000).

On February 20, the Company entered into an agreement and issued 300,000 shares of Rule 144 restricted common stock with a fair market value of \$15,000 to each of four consultants to services in conjunction with the MGT acquisition.

On March 3, 2015, the Company entered into an agreement and issued 7,500,000 shares of S8 registered free-trading common stock and 5,000,000 shares of Rule 144 restricted common stock with a fair market value of \$625,000 to John Dalaly, President of MGT for services in conjunction with the MGT acquisition.

On March 16, 2015, the Company entered into an agreement and issued 2,500,000 shares of Rule 144 restricted common stock and 2,500,000 shares of S8 registered common stock with a fair market value of \$255,000 to each of two consultants.

On March 16, 2015, the Company entered into an agreement and issued 5,000,000 shares of Rule 144 restricted common stock and 2,500,000 shares of S8 registered common stock with a fair market value of \$382,500 to a consultant for services.

On March 16, 2015, the Company entered into an agreement and effectively issued 1,000,000 shares of S8 registered free-trading common stock with a fair market value of \$51,000 to a consultant for services.

On March 26, 2015, the Company entered into an agreement and effectively issued 5,000,000 shares of S8 registered free-trading common stock with a fair market value of \$222,500 to a consultant for services.

On March 26, 2015, the Company entered into an agreement and effectively issued 3,000,000 shares of S8 registered free-trading common stock with a fair market value of \$133,500 to a consultant for services.

On March 26, 2015, the Company entered into an agreement and effectively issued 2,500,000 shares of Rule 144 restricted common stock with a fair market value of \$111,250 in addition to 2,500,000 stock options exercisable at \$0.04 per share to a consultant for investor relations services.

On March 27, 2015, the Company's CFO, Robert Kane, loaned Michigan Green Technologies LLC \$52,500 secured by a non-interest bearing promissory note due within 30 days of MGT liquidating shares in Cannabis Science, Inc. to repay the debt. As of February 20, 2015, the Company closed on its acquisition and now owns a majority 50.1% interest in MGT.

Common shares reconciliation table:

| | |
|--|----------------------|
| Issued and outstanding as of December 31, 2014 | 1,032,123,906 |
| <u>Pending and subsequent event issuances</u> | <u>153,083,390</u> |
| <u>Unissued and outstanding as of April 17, 2015</u> | <u>1,185,207,296</u> |

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There were no disagreements with accountants on accounting and financial disclosure during the relevant period.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of December 31, 2009. This evaluation was accomplished under the supervision and with the participation of our chief executive officer / principal executive officer, and chief financial officer / principal financial officer who concluded that our disclosure controls and procedures are not effective to ensure that all material information required to be filed in the annual report on Form 10-K has been made known to them.

Disclosure, controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by in our reports filed under the Securities Exchange Act of 1934, as amended (the "Act") is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based upon an evaluation conducted for the year ended December 31, 2014, our Chief Executive and Chief Financial Officer as of December 31, 2014, and as of the date of this Report, has concluded that as of the end of the periods covered by this report, we have identified the following material weakness of our internal controls:

Reliance upon independent financial reporting consultants for review of critical accounting areas and disclosures and material non-standard transactions.

Failure of management to provide timely information for financial reporting resulting in late filings.

Lack of sufficient accounting staff which results in a lack of segregation of duties necessary for a good system of internal control.

The Company has increased services and related staffing through its business and financial consulting contractor to remedy existing internal control deficiencies.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework at December 31, 2014. Based on its evaluation, our management concluded that, as of December 31, 2014, our internal control over financial reporting was not effective because of limited staff and a need for a full-time chief financial officer. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to the attestation by the Company's registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in this annual report.

Changes in Internal Controls over Financial Reporting

We have not yet made any changes in our internal controls over financial reporting that occurred during the period covered by this report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Identification of Directors and Executive Officers of the Company:

As of December 31, 2014, our officers and directors were as follows:

| NAME | AGE | OFFICE | SINCE |
|-----------------------|-----|---|-------|
| Raymond C. Dabney | 50 | CEO and Director | 2014 |
| Chad S. Johnson, Esq. | 46 | Director, COO and General Legal Counsel | 2012 |
| Robert Kane | 39 | CFO and Director | 2013 |
| Mario Lap | 63 | Director | 2013 |
| Dr. Richard Ogden | 60 | CSO | 2013 |

The Directors named above will serve until the next annual meeting of our stockholders. Thereafter, Directors will be elected for one-year terms at the annual stockholders' meeting. Officers will hold their positions at the pleasure of the Board of Directors. There is no arrangement or understanding between the Directors and Officers of the Company and any other person pursuant to which any Director or Officer was or is to be selected as a Director or Officer of the Company.

There are no family relationships between or among any Officer and Director.

On November 5, 2014, Dr. Dorothy Bray resigned as CEO and director of the Company and subsidiaries.

On November 5, 2014, Raymond Dabney was appointed CEO and director of the Company and subsidiaries

Mr. Dabney has been working as a managing consultant with the Company since October 2008. Mr. Dabney will serve as Director and officer until his duly elected successor is appointed or he resigns. There are no arrangements or

understandings between Mr. Dabney and any other person pursuant to which he was selected as an officer or director. There are no family relationship between Mr. Dabney and any of our officers or directors. Mr. Dabney has been director and CEO of Crown Baus Capital Corp. (OTC: CBCA) since January 13, 2015 and controlling shareholder of CBCA since February 2014. During the past five years, Mr. Dabney has not held any other directorships in a company with a class of securities registered pursuant to section 12 of the Exchange Act or subject to the requirements of section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940. Mr. Dabney is trustee of Bogat Family Trust a controlling shareholder of the Company since September 2009 and owner of 1,000,000 shares of Series A preferred stock with 67% voting control of the Company.

Mr. Chad S. Johnson, a native Kansan, is a 1989 graduate of Harvard with a concentration in economics and a 1992 graduate of Harvard Law School. After a federal clerkship, Mr. Johnson worked as a financial institutions mergers, acquisitions and regulatory attorney for Skadden Arps Slate Meagher & Flom LLP from 1993 through 2000, taking a leave to work full-time on the Gore/Lieberman campaign and subsequent recount effort. Mr. Johnson served as founder, pro bono general counsel, and/or director for several gay and lesbian civil rights organizations and AIDS charitable organizations during his time at Skadden Arps. He then served as executive director of the national lgbt democrats organization for two years before pursuing various private entrepreneurial ventures while also serving as chief of staff and general counsel for a premier cosmetic surgery center from 2003 to present. In 2010, Mr. Johnson co-founded and joined the board of directors of the non-profit World AIDS Institute and thereafter the Timothy Ray Brown Foundation of the World AIDS Institute.

Mario Lap has core competencies in IT and Substance Use Consultancy, Drug Policy, Digitalization, Project Management, Communication, Consulting Selling, Consultancy, Process management, Networker, Advise, IT / Internet Experience, Languages, Presentation, Innovation, has previously held the following positions: January 1, 1995 to present Director Drugtext Foundation; March 24, 1992 to present Director, mls lap bv internet health services; January 1, 2012 to present Director RJM bv, holding company; January 1, 2007 Apcare bv Schiphol-Rijk The Netherlands; January 1, 2005 to January 1, 2006 Director Yalado International bv, Online Backup March 2, 1999 to January 1, 2006 Director/founder Calyx Internet bv, Security focussed ISP and IT development company, Amsterdam, the Netherlands; January 1, 1994 to February 7, 2000 Director Calyx Corporation, Internet Service Provider, New York USA; January 1, 1991 to December 31, 1996 Visiting professor at the Rechercheschool, National Educational Institution of the Dutch police (Zutphen, The Netherlands); January 1, 1989 to December 31, 1994 Head of the legal and policy department of the Netherlands Institute for Alcohol and other Drugs, Utrecht The Netherlands); January 1, 1970 to December 31, 1985 Sales department, sales manager and general manager Loe Lap department stores; and January 1, 1994 to present Numerous International publications in Dutch, English, French and German as well Dutch and foreign TV and radio appearances and interviews (such as CNN, BBC, France 2, RTL and Dutch public and commercial TV).

Mr. Robert Kane worked as a registered representative for Stifel Nicolaus & Co. from November 2008 to December 2009. From January 2010 to February 2011, Mr. Kane worked as president of Cannabis Consulting, Inc. Mr. Kane has worked as CFO of Cannabis Science since November 2013 and vice president of investor relations since September 2011.

We have no audit committee. The Company has a compensation committee consisting of two directors, Raymond C. Dabney, CEO and Chad S. Johnson, COO/General Legal Counsel.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's directors and executive officers, and persons who own more than 10% of a registered class of the Company's equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than 10% stockholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Raymond Dabney, CEO and director, Mario Lap, director and director and officer of EU subsidiaries and Robert Kane, CFO and director, Bogat Family Trust, controlling shareholder, and Robert Melamede, former CEO and controlling shareholder did not file required reports under Section 16(a) of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2014. Mr. Dabney subsequently filed one required report in January 2015. The Company has instructed these parties to file required reports and will take appropriate action, where possible, if the delinquencies continue.

To our knowledge, based solely on its review of the copies of such reports furnished to the Company and written representations that no other reports were required during the fiscal year ended December 31, 2014, all other Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners were complied with.

Code of Ethics

Code of Ethics for the Chief Executive Officer, the Principal Financial Officer, and the Chief Operating Officer.

Our Board of Directors has adopted the Code of Ethical and Professional Standards of National Healthcare Technology, Inc. (predecessor to Cannabis Science, Inc.) and Affiliated Entities Code of Business Conduct and Ethics that applies to its officers and employees effective on April 11, 2007. We will provide any person without charge, a copy of our code of ethics, upon receiving a written request in writing addressed to the Company at the Company's address, attention: Secretary.

ITEM 11. EXECUTIVE COMPENSATION

During the year ended December 31, 2014, the Company accrued a total of \$6,538,553 in executive and prepaid stock compensation that includes \$309,778 paid for management fees and salaries.¹ The table below shows the compensation split:

| | Cash /Accrued Compensation | Stock Issuances | Total Compensation |
|----------------------|-------------------------------|--------------------|-----------------------|
| | \$ | \$ | \$ |
| Raymond Dabney | 114,778 | 1,091,115 | 1,205,893 |
| Dorothy Bray, Ph.D.* | 105,000 | 1,395,970 | 1,500,970 |
| Chad S. Johnson | 45,000 | 1,247,600 | 1,292,600 |
| Mario Lap | 22,500 | 1,340,100 | 1,362,600 |
| Robert Kane | 22,500 | 792,850 | 815,350 |
| Dr. Richard Ogden | - | 150,337 | 150,337 |
| | 309,778 | 6,017,972 | 6,538,553 |

¹ Including amounts paid through officer and director controlled management companies.

*former director and CEO

Employment Agreements

Currently, the Company has management agreements with Raymond C. Dabney, CEO, Chad S. Johnson, COO and General Legal Counsel, Robert Kane, CFO, Dr. Richard Ogden, CSO, Mario Lap, Director and director and office of European subsidiaries, and Bogat Family Trust, Raymond C. Dabney, trustee.

Compensation of Directors

Directors are entitled to reimbursement for reasonable travel and other out-of-pocket expenses incurred in connection with attendance at meeting of the Board of Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATES STOCKHOLDER MATTERS

The following tabulates holdings of shares of the Company by each person who, subject to the above, at the date of this Report, holds of record or is known by Management to own beneficially more than five percent (5%) of our common stock and, in addition, by all of our directors and officers individually and as a group.

| NAME AND ADDRESS | NUMBER OF SHARES OWNED BENEFICIALLY | |
|---|--|----------------------------|
| | | PERCENT OF SHARES OWNED |
| Raymond C. Dabney | 74,649,333 | 6.3% |
| 900 555 Burrard St. | | |
| Vancouver, BC V7X 1M8 | | |
| Canada | | |
| Bogat Family Trust ⁽¹⁾ | 46,923,333 | 4.0% |
| Suite 530-650 41st Ave W | | |
| Vancouver, BC V5Z 2M9 Canada | | |
| Pacific One Financial Services Limited ⁽¹⁾ | 5,000,000 | 0.4% |
| 369 Queen Street. Level 4, Auckland Central, Auckland, 1010, NZ | | |
| Chad S. Johnson ⁽²⁾ | | |
| 6946 N Academy Blvd | 15,818,000 | 1.3% |
| Suite B #254 | | |
| Colorado Springs, CO 80918 | | |
| Dr. Dorothy Bray ⁽³⁾ | 29,554,452 | 2.5% |
| Rowlandson House | | |

289-293 Ballards Lane

London, UK N12 8NP

Dr. Robert Melamede ⁽³⁾

25,340,333

2.1%

16 Lake Forrest Dr.

Burlington, VT 05401

Robert Kane ⁽²⁾

18,240,310

1.5%

6946 N Academy Blvd

Suite B #254

Colorado Springs, CO 80918

Mario Lap ⁽²⁾

15,000,000

0.7%

Koninginneweg 189

1075 CP

Amsterdam, The Netherlands

Dr. Richard Ogden ⁽²⁾

3,600,000

0.3%

6946 N Academy Blvd

Suite B #254

Colorado Springs, CO 80918

ALL DIRECTORS AND

EXECUTIVE OFFICERS

182,202,428

15.4%*

*Based on 1,185,207,296 issued and outstanding common stock as of April 17, 2015.

⁽¹⁾ Raymond Dabney, CEO and director, is trustee of Bogat Family Trust, a British Columbia family trust and 67% voting control shareholder of the Company. Mr. Dabney owns 80.1% of Pacific One Financial Services Limited, a New Zealand company.

⁽²⁾ Officer and Director.

⁽³⁾ Former Officer and Director.

Changes in Control

There are no arrangements known by us, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change of control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

During the year the following transactions occurred between the Company and certain related parties:

At December 31, 2014, a total of \$191,344 (December 31, 2013: \$191,344) was due to Bogat Family Trust (Bogat), Raymond Dabney the Company s CEO and director as trustee. \$447 (December 31, 2013: \$0) officer advance was due to the Company s former President, Robert Melamede. \$12,201 is due to MLS Lap BV owned by Mario Lap a Company director and director and officer of EU subsidiaries. The amounts due are non-interest bearing, unsecured and have no specified terms of repayment.

Dr. Melamede, former CEO, also performs management services to the Company under Management Consulting Agreements signed on February 9, 2012, January 1, 2013, and May 20, 2014. For the year ended December 31, 2014, \$210,803 was expensed for services under the Agreements.

Bogat Family Trust, Raymond Dabney trustee, and Raymond Dabney, CEO perform management services to the Company under Management Agreements signed on January 1, 2013 and February 9, 2012, respectively. Mr. Dabney signed a new 5-year Management Agreement on November 5, 2014 in conjunction with his appointment as CEO and director. For the year ended December 31, 2014, \$1,205,893 was expensed for services under the Agreements.

Former CEO and director Dorothy Bray, Ph.D. signed a new consulting agreement on November 5, 2014 to continue providing scientific consulting services to the Company.

Raymond Dabney, CEO has been a controlling shareholder of ImmunoClin Corporation (OTC: IMCL) through beneficial ownership in Castor Management Services, Inc. since April 5, 2013 and subsequently acquiring director ownership on January 14, 2015. Chad S. Johnson has been a director and COO/General Legal Counsel of IMCL since

November 8, 2013. Dorothy Bray, former CEO and director of the Company has been CEO and director of IMCL since December 13, 2013. ImmunoClin performs laboratory services and pharmaceutical development for the Company through its wholly-owned subsidiary ImmunoClin Limited that operates a laboratory at the London Biosciences Centre in London, UK.

Mario Lap, a director of the Company and director and officer its European subsidiaries, is conducting various business activities of the Company in Spain under his personal name and/or his personal holding companies MJR BV and MLS Lap BV until such time as the Company is able to establish a Spanish subsidiary to conduct its own business operations and activities, including but not limited to: operating lease for farms, asset purchases, office and equipment, personnel employment and other business and operating activities as may be required from time-to-time. The Company anticipates having the Spanish subsidiary setup in fiscal 2015 at which time Mario Lap under fiduciary duty will transfer all business operating activities, agreements, and assets to the Company.

On January 18, 2015, Mario Lap, the Company's director and director and officer of EU subsidiaries, loaned \$4,031 to Cannabis Science BV a wholly-owned subsidiary of the Company.

On March 27, 2015, the Company's CFO, Robert Kane, loaned Michigan Green Technologies LLC \$52,500 secured by a non-interest bearing promissory note due within 30 days of MGT liquidating shares in Cannabis Science, Inc. to repay the debt. As of February 20, 2015, the Company closed on its acquisition and now owns a majority 50.1% interest in MGT.

The Company does not have any independent directors.

See Notes 5 and 7 of the Financial Statements for related party transaction details.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

(1) AUDIT FEES

The aggregate fees billed for professional services by our auditors, for the audit of the registrant's annual financial statements and review of the financial statements included in the registrant's Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for fiscal year 2014 was \$26,000 and in 2013 was \$25,000.

(2) AUDIT-RELATED FEES

The aggregate fees billed for professional services by our auditor include amounts paid for the review of the unaudited financial statements included in the registrant's Form 10-Q were approximately \$35,000.

(3) TAX FEES

NONE

(4) ALL OTHER FEES

NONE

(5) AUDIT COMMITTEE POLICIES AND PROCEDURES

Audit Committee Financial Expert

The Securities and Exchange Commission has adopted rules implementing Section 407 of the Sarbanes-Oxley Act of 2002 requiring public companies to disclose information about audit committee financial experts. As of the date of this Annual report, we do not have a standing Audit Committee. The functions of the Audit Committee are currently assumed by our Board of Directors. Additionally, we do not have a member of our Board of Directors that qualifies as an audit committee financial expert. For that reason, we do not have an audit committee financial expert.

(6) If greater than 50 percent, disclose the percentage of hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

Not applicable.

Item 15. Exhibits, Financial Statement Schedules.

The following documents are filed as part of this Form 10-K:

(1)

Financial Statements: Consolidated Balance Sheets, Consolidated Statements of Operations, Statement of Stockholders' Equity (Deficit), Consolidated Statements of Cash Flows, and Notes to Consolidated Financial Statements.

(2)

Financial Statement Schedules

Financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes described in Item 15(1) or Item 15(3).

(3)

Exhibits

The exhibits listed in the Exhibit Index are incorporated herein by reference and/or are filed as part of this Form 10-K.

| Exhibit No. | Document Description | Filed Herewith |
|--------------------|--------------------------------|-----------------------|
| 10.1 | Amendment to License Agreement | X |
| 10.2 | Management Agreement Amendment | X |
| 10.3 | Consulting Agreement | X |
| 10.4 | Management Agreement | X |
| 10.5 | Management Agreement | X |
| 10.6 | Management Agreement | X |
| 10.7 | Management Agreement | X |

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| | | |
|------------|---|---|
| 10.8 | Management Agreement | X |
| 10.9 | Management Agreement | X |
| 10.10 | Debt Settlement Agreement | X |
| 10.11 | Independent Consulting Agreement | X |
| 10.12 | Management Agreement | X |
| 10.13 | Management Agreement | X |
| 10.14 | Settlement Agreement | X |
| 10.15 | Management Agreement | X |
| 10.16 | Management Agreement | X |
| 10.17 | Debt Settlement Agreement | X |
| 10.18 | Consulting Agreement | X |
| 10.19 | Consulting Agreement | X |
| 10.20 | Consulting Agreement | X |
| 10.21 | Consulting Agreement | X |
| 10.22 | Consulting Agreement | X |
| 10.23 | Consulting Agreement | X |
| 10.24 | Consulting Agreement | X |
| 10.25 | Consulting Agreement | X |
| 10.26 | Consulting Agreement | X |
| 10.27 | Consulting Agreement | X |
| 10.28 | Consulting Agreement | X |
| 31.1 | Certification by Raymond C. Dabney, Chief Executive Officer, as required under Section 302 of Sarbanes-Oxley Act of 2002. | X |
| 31.2 | Certification by Robert Kane, Chief Financial Officer, as required under Section 302 of Sarbanes-Oxley Act of 2002. | X |
| 32.1 | Certification as required under Section 906 of Sarbanes-Oxley Act of 2002. | X |
| 32.2 | Certification as required under Section 906 of Sarbanes-Oxley Act of 2002. | X |
| EX-101.INS | XBRL Instance Document | X |
| EX-101.SCH | XBRL Taxonomy Extension Schema | X |
| EX-101.CAL | XBRL Taxonomy Extension Calculation Linkbase | X |
| EX-101.LAB | XBRL Taxonomy Extension Label Linkbase | X |
| EX-101.PRE | XBRL Taxonomy Extension Presentation Linkbase | X |
| EX-101.DEF | XBRL Taxonomy Extension Definition Linkbase | X |

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Raymond C. Dabney
Raymond C. Dabney, Chief
Executive Officer, Director

Date: April 21, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|--------------------------------------|----------------|
| <u>/s/ Raymond C. Dabney</u> Raymond C. Dabney | Chief Executive Officer and Director | April 21, 2015 |
| <u>/s/ Robert Kane</u> Robert Kane | Chief Financial Officer and Director | April 21, 2015 |