

CANNABIS SCIENCE, INC.  
Form 10-K  
April 16, 2012

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

**FORM 10-K**

**ANNUAL REPORT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** For the  
fiscal year ended **December 31, 2011**

**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**

**91-1869677**

(State or Other Jurisdiction of Incorporation  
of Organization)

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

**6946 N Academy Blvd, Suite B #254**

**Colorado Springs, CO 80918**

**(888) 889-0888**

(Address of principal executive offices) (ZIP Code)

(Registrant's telephone number, including area code)

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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 ☒

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 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** ☒

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, 2011 [this is supposed to be the most recent 2<sup>nd</sup> quarter so it shouldn't be updated], 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 \$5,271,983 based on the closing sale price of \$0.04 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 16, 2012: 384,670,574

## **PART I**

### **ITEM 1. DESCRIPTION OF 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. (formerly Gulf Onshore, Inc.) ( We , us or the Company ), was incorporated under the laws of the State of Colorado, on February 29, 1996, as Patriot Holdings, Inc. On August 26, 1999, the Company changed its name to National Healthcare Technology, Inc., and commenced a business plan to develop Magkelate, a patented intravenous drug developed to re-establish normal electrolyte balance in ischemic tissue and certain other patents for medical instruments and medical instrument technology. On January 14, 2000, the Company filed its Form 10SB12G. In 2002, the Company ceased its medical technology business following the death of Magkelate s inventor. The Company conducted no substantial business until 2005.

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

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

On March 25, 2008 the Company changed its name to Gulf Onshore, Inc. On June 6, 2008, the Company entered into an Asset Acquisition Agreement with K & D to acquire additional leases (the Leases ) in exchange for common stock

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

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

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

On March 30, 2009, the Company entered into an agreement with Cannex Therapeutics, LLC, ( Cannex ) a California limited liability company, and its principal, medical cannabis pioneer and entrepreneur Steven W. Kubby, to acquire all of their interest in certain assets used to conduct a cannabis research and development business. The asset purchase agreement includes all of Cannex's and Kubby's intellectual property rights, formulas, patents, trademarks, client base, hardware and software, including the website [www.phytiva.com](http://www.phytiva.com). The Company and its largest stockholder, K & D Equities, Inc., exchanged a total of 10,600,000 shares of common stock for the assets of Cannex; the Company issued 2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed. Please see Note 1 to the financial statements.

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

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

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

On August 18, 2010, the Company entered into a license agreement with Rockbrook, Inc. to license its proprietary medical cannabis products and delivery methods. Rockbrook is a licensed Colorado medical marijuana dispensary.

Under the license agreement, Rockbrook will pay license fees to Cannabis Science throughout the course of its operation. As of December 31, 2011, the Company is re-assessing the license agreement with Rockbrook and how to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on.

On February 9, 2012, the Company signed a license agreement with Apothecary Genetics Investments LLC. to produce several Cannabis Science Brand Formulations for the California medical cannabis market. As well, Apothecary will provide research and development facilities with full circle operations including a California laboratory facility for internal research and development, along with 16 unique genetic strains specifically generated and maintained by a cancer survivor who recognizes the importance of proper growth and breeding. In consideration of this agreement, on January 1, 2012, the Company entered into a 25 year management agreement with Dr. Mohammad Afaneh to act Chief Operating Officer of Cannabis Science, Inc. Dr. Afaneh received 28,500,000 common shares valued at \$299,250 under this agreement. In addition, on February 10, 2012, Dr. Afaneh signed a management bonus agreement where he received 5,000,000 common shares valued at \$185,000 as a signing bonus for entering into his management agreement. In addition, on January 1, 2012, the Company entered into a 25 year management agreement with Bret Bogue to act as Director of Horticulture and head of research and development. Mr. Bogue received 28,500,000 common shares valued at \$299,250 under this agreement. In addition, on February 10, 2012, Mr. Bogue signed a management bonus agreement where he received 5,000,000 common shares valued at \$185,000 as a signing bonus for entering into his management agreement.

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 to issued to the principal, Mr. Robert Kane.

The Company is in the development stage as defined in Accounting Standards Codification ( ASC ) Topic 915.

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

Not applicable.

### **ITEM 2. PROPERTIES**

We currently lease a laboratory and 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 16, 2012, there are not any material pending legal proceedings, other than ordinary routine litigation incidental to our business, to which we or any of our subsidiaries, GGECO or CCI Group, are a party or of which any of our properties is the subject. Also, our management is not aware of any legal proceedings contemplated by any governmental authority against us.

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



None.

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## 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:

#### Fiscal Year Ending December 2010

##### HIGH

##### LOW

Quarter Ending March 31, 2010

0.44

0.21

Quarter Ending June 30, 2010

0.25

0.10

Quarter Ending September 30, 2010

0.11

0.04

Quarter Ending December 31, 2010

0.26

0.04

Fiscal Year Ending December 2011

HIGH

LOW

Quarter Ending March 31, 2011

0.14

0.03

Quarter Ending June 30, 2011

0.09

0.04

Quarter Ending September 30, 2011

0.06

0.02

Quarter Ending December 31, 2011

0.03

0.01

As of December 31, 2011, there were 235 stockholders of record, including CEDE & Co., which holds shares for the beneficial interest of an unknown number of stockholders in brokerage accounts.

### **Dividends**

We have not declared or paid cash dividends or made distributions in the past, and we do not anticipate that we will pay cash dividends or make 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, 2011, we did not sell any shares in unregistered offerings

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 three months ended December 31, 2011, the Company entered into debt settlement agreements with several parties as follows:

On October 4, 2011, the Company issued 6,500,000 common shares from the Company's 2011 Stock Compensation Plan B to two consultants for services rendered with a fair market value of \$156,000 based on the closing price of the Company's common stock on September 28, 2011 which was \$0.024 per share.

On October 12, 2011, the Company issued 8,000,000 common shares for settlement of \$8,000 of stockholder debt, for a loss on settlement of \$168,000, assigned from the stockholder note payable originating on July 15, 2010 and July 30, 2010, and owing at December 31, 2010.

On October 13, 2011, the Company issued 3,000,000 common shares for settlement of \$3,000 of stockholder debt, for a loss on settlement of \$64,200, assigned from the stockholder note payable originating on March 2, 2011.

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On October 13, 2011, the Company issued 4,500,000 common shares from the Company's 2011 Stock Compensation Plan B to a consultant for services rendered with a fair market value of \$100,800 based on the closing price of the Company's common stock on October 11, 2011 which was \$0.0224 per share.

On October 26, 2011, the Company issued 5,800,000 common shares for settlement of \$5,800 of stockholder debt, for a loss on settlement of \$165,200, assigned from the stockholder note payable originating on July 15, 2010 and August 5, 2010, and owing at December 31, 2010.

On November 4, 2011, the Company issued 30,000,000 common shares for settlement of \$30,000 of stockholder debt, for a loss on settlement of \$570,000, assigned from the stockholder note payable originating on August 16, 2010, September 2, 10, 14, and 17, 2010 and October 7 and 13, 2010, and owing at December 31, 2010.

On November 22, 2011, the Company issued 17,000,000 common shares for settlement of \$17,000 of stockholder debt, for a loss on settlement of \$323,000, assigned from the stockholder note payable originating on August 16, 2010, September 2, 10 and 14, 2010 and October 13, 2010, and owing at December 31, 2010.

On November 23, 2011, the Company issued 9,000,000 common shares for settlement of \$9,000 of stockholder debt, for a loss on settlement of \$171,000, assigned from the stockholder note payable originating on August 16, 2010, and owing at December 31, 2010.

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On December 9, 2011, the Company issued 13,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$256,500, assigned from the stockholder note payable originating on March 2, 2011.

On December 21, 2011, the Company issued 18,500,000 common shares for settlement of \$18,500 of stockholder debt, for a loss on settlement of \$166,500, assigned from the stockholder note payable originating on October 13, 2010 and May 18, 2011.

On December 28, 2011, the Company issued 5,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$256,500, assigned from the stockholder note payable originating on March 2, 2011.

All relating shares were issued to settle the aforementioned debt.

**ITEM 6. SELECTED FINANCIAL DATA**

Not applicable.

**ITEM 7. MANAGERMENTS DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.**

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**

In Q1 of 2008, the Company acquired all of the assets of Cannex Therapeutics, LLC from Cannex and Steven W. Kubby, and committed to the research and development of cannabis based medical products. The Company owns intellectual property related to a whole cannabis extract lozenge, which has demonstrated some efficacy in non-blind informal testing. Other research indicates that cannabis extracts available in non-smoked forms, including lozenges and topical creams, may have medicinal uses in treating a variety of diseases, the symptoms of those diseases, and for analgesic purposes.

The Company is committed to research and development of cannabis extract medicines ("product") 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 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 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 not the legalization of marijuana, but instead the development of FDA-approved and legal non-smoked cannabis-based medicines. 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*

Since our inception on January 27, 2005 to December 31, 2011, we have earned limited revenues of \$90,107. During the fiscal year ended December 31, 2011 we generated license revenues of \$73,702. As of December 31, 2011, we had an accumulated deficit of \$70,536,669. 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*

We incurred a net loss of \$70,513,417 since January 27, 2005 (date of inception) to December 31, 2011. Our net loss increased, from \$8,153,680 for the fiscal year ended December 31, 2010 to \$8,339,044 for the fiscal year ended December 31, 2011, an increase of \$185,364. For the fiscal year ended December 31, 2011, our net loss per share was \$0.05, compared to a net loss per share of \$0.13 per share for the fiscal year ended December 31, 2010.



### *Expenses*

Our total expenses from January 27, 2005 (date of inception) to December 31, 2011 were \$67,050,723 and consisted of \$1,206,974 in investor relations, \$32,806,677 in professional fees, \$160,417 in technology license royalties, \$5,089,811 in impairment of oil and gas well lease, \$4,870,337 in net gain on settlement of liabilities, \$81,582 in depreciation and amortization and \$22,834,925 in general and administrative fees. Total expenses increased \$221,547 to \$8,412,158 for the fiscal year ended December 31, 2011 from total expenses of \$8,190,611 for the same period in 2010.

Our investor relations expenses increased \$24,680 to \$86,182 for the fiscal year ended December 31, 2011 from \$61,502 for the same period in 2010. This was due to increased stock related compensation for investor relations engagements in 2011 from 2010.

Our professional fees decreased \$16,599 to \$118,749 for the fiscal year ended December 31, 2011 from \$135,348 for the same period in 2010 due to decreased securities filing activity.

The loss on settlement of liabilities increased \$347,450 to \$5,129,800 for the year ended December 31, 2011 from \$4,782,350 in 2010. This increase was due to increased settlement of debt through stock and resulting losses on the settlements.

Our general and administrative expenses decreased by \$129,056 from \$3,184,121 for the fiscal year ended December 31, 2010 to \$3,055,065 for the same period ended December 31, 2011. The decrease in general and administrative expenses was mainly due to an decrease in management and consulting fees for executives of the Company and consultants. 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, 2011, our current assets totaled \$5,325 which was comprised of \$2,197 in cash and cash equivalents and \$3,128 in prepaid expenses and deposits. As of December 31, 2011, we had \$47,588 in intangible

assets, net of accumulated amortization, \$6,666 in long-term deposits, and \$967 in property and equipment, net of accumulated depreciation. As of December 31, 2011 we had a working capital deficit of \$2,285,621.

Our net loss of \$70,573,417 from January 27, 2005 (date of inception) to December 31, 2011 was mostly funded by debt financing. We expect to incur substantial losses over the next two years. During the fiscal year ended December 31, 2011 our cash position increased slightly by \$1,007.

During the fiscal year ended December 31, 2011, we received net cash of \$237,480 from financing activities compared to \$343,437 for the same period in 2010. We used net cash of \$236,473 in operating activities compared to \$341,876 for the same period in 2010. And we used net cash of \$0 in investing activities compared for the fiscal year ended December 31, 2011 compared to \$614 for the same period in 2010.

We are 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.

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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.

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 to issued to the principal, Mr. Robert Kane.

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, 2011 the Company had two full-time employees.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2011**

Report of Independent Registered Public Accounting Firm

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Balance Sheets

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Statements of Operations

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Statements of Cash Flows

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Notes to Financial Statements

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Stockholders

Cannabis Science, Inc.

We have audited the accompanying balance sheets of Cannabis Science, Inc. (the Company) (a development stage company) as of December 31, 2011 and 2010 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended, and for the period January 27, 2005 (Inception) through December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Cannabis Science, Inc. at December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended and for the period January 27, 2005 through December 31, 2011, 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 financial statements, the Company has no revenues 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 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 16, 2012

F-2

**CANNABIS  
SCIENCE,  
INC.**

(A  
DEVELOPMENT  
STAGE  
COMPANY)

BALANCE  
SHEETS

DECEMBER ASSETS  
31, 2011  
AND 2010

December 31,

2011

\$

December 31,

2010

\$

Current assets:

Cash

2,197

1,190

Prepaid expenses and deposits

3,128

18,009

Total current assets

5,325

19,199

Deposits

6,666

6,666

Property and equipment, net of accumulated depreciation (Note 7)

967

2,181

Intangibles, net of accumulated amortization (Note 8)

47,588

68,736

TOTAL ASSETS

60,546

96,782

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:

Accounts payable

476,590

393,753

Accrued expenses, primarily management fees

1,163,126

375,000

Advances from related parties

	156,818
	107,835
Advances from officer	-
	1,807
Convertible management bonuses	
	300,000
	300,000
Advances from stockholders	
	194,413

171,509

Deferred license revenue

-

73,334

Total current liabilities

2,290,947

1,423,238

Commitments and contingencies (Note 6)

Stockholders' deficit:

Preferred stock, \$.001 par value, 1,000,000 shares authorized,  
999,999 shares issued and outstanding at December 31, 2011 and 2010

1,000

1,000

Common stock, \$.001 par value, 850,000,000 shares authorized,  
305,420,574 issued and outstanding as of December 31, 2011 and 101,170,574 at December 31, 2010

305,421

101,171

Common stock, Class A, \$.001 par value, 100,000,000 shares authorized, 0 issued and outstanding as of  
December 31, 2011 and 2010

-



	-
Prepaid consulting	
	(379,156
	)
	(1,322,630
	)
Additional paid-in capital	
	68,379,003
	62,091,628
Deficit accumulated during the development stage	
	(70,536,669
	)
	(62,197,625
	)
Total stockholders' deficit	

(2,230,401

)

(1,326,456

)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT

60,546

96,782



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

F-3

**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

**STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010  
AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO DECEMBER 31, 2011**

	Period from January 27, 2005 (inception) to		
	December 31, 2011	December 31, 2010	December 31, 2011
	\$	\$	\$,
REVENUE	73,702	4,166	90,107

**OPERATING EXPENSES**

Investor relations

Professional fees

Technology license royalties

Impairment of oil and gas well lease

Net loss (gain) on settlement of liabilities

Depreciation and amortization

General and administrative

Total operating expenses

OPERATING PROFIT (LOSS)

)

)

Other income

Interest expense, net

)

)

Beneficial conversion feature



)

INCOME (LOSS) BEFORE INCOME TAXES

)

)

Income tax provision

)

Income tax benefit (Note 3)

)

NET INCOME (LOSS) FROM CONTINUING OPERATIONS

)

)

Discontinued operations

)

Income tax benefit

)

NET INCOME (LOSS)

)

)

NET INCOME (LOSS) PER SHARE FROM CONTINUING OPERATIONS BASIC AND DILUTED

)

NET INCOME (LOSS) PER SHARE FROM DISCONTINUED OPERATIONS BASIC AND DILUTED

NET INCOME (LOSS) PER SHARE BASIC AND DILUTED

)

WEIGHTED AVERAGE SHARES OUTSTANDING BASIC  
AND DILUTED





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

F-4

	Common Par Shares	Preferred Shares	Additional Paid-in Capital	Prepaid Consulting	Accumulated Deficit	Totals
	Shares	\$	\$	\$	\$	\$
Balance at January 27, 2005	-	-	-	-	-	-
Founder s Stock Issued	83,800	84	(84)	-	-	-
Stock Issued for Debt	8,000	8	399,992	-	-	400,000
Shares Issued for License Agreement	86,188	86	(86)	-	-	-Effect of Reverse Merger
						13,840
						14
						(200,014)

(200,000)

Divestiture of Subsidiary  
to Related Party

544,340





544,340

Net Loss

(807,600

)

(807,600

Balance at December 31,  
2005

191,828

192

-

-

744,148

-

(807,600

)

(63,260)

Shares Issued for  
Employment

45,500

45

8,487,455

-

-

8,487,500

Shares Issued for  
Services

171,080

171

28,798,329

( 7,633,750)

-

21,164,750

Shares Issued for Lease  
Agreement

6,770

7

406,193

-

	(350,200)
	)
	56,000
Net Loss	
	-
	-
	-
	-
	(36,906,584)
	)

(36,906,584)

Balance at December 31,  
2006

415,178

415

-

-

38,436,125

( 7,633,750)

(38,064,384

)

(7,261,594

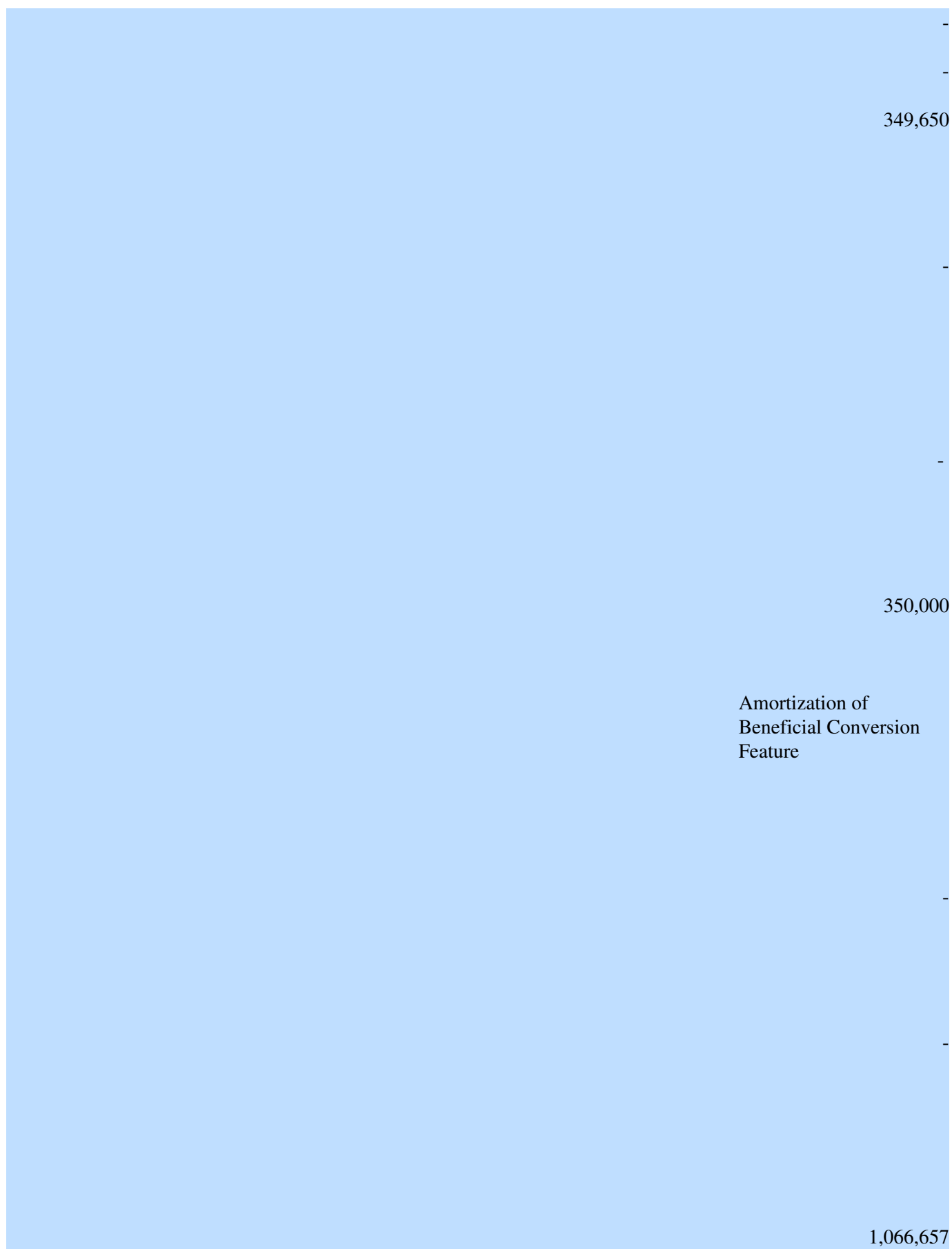
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Shares Issued For  
Services

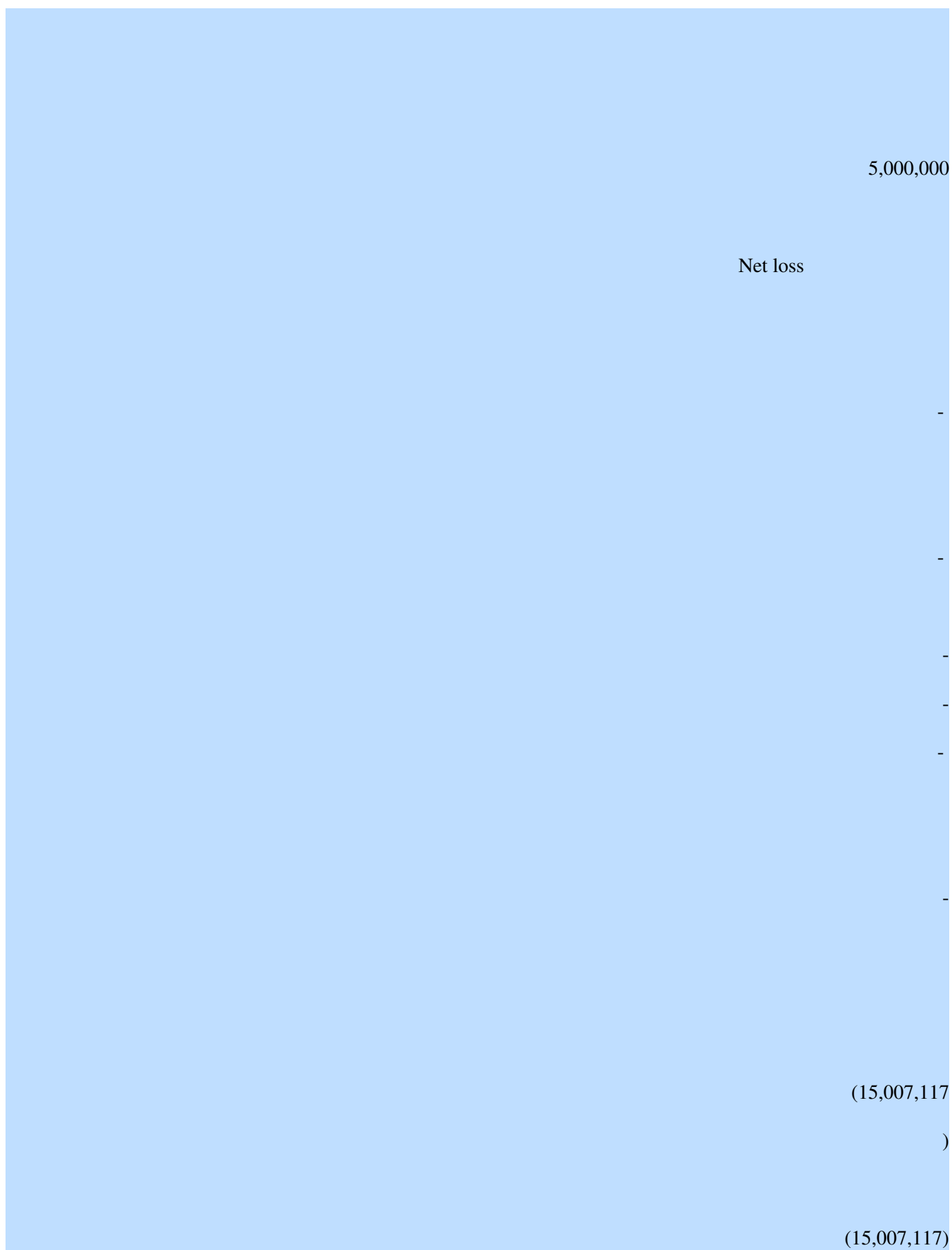
63,020

	63
	528,285
	( 387,500)
	140,848
Shares Issued for Debt Conversion	
	350,000
	350









5,000,000

Net loss

-

-

-

-

-

-

(15,007,117

)

(15,007,117)

Balance at December 31,  
2007

1,328,198

1,328

-

-

45,380,217

-

(53,071,501

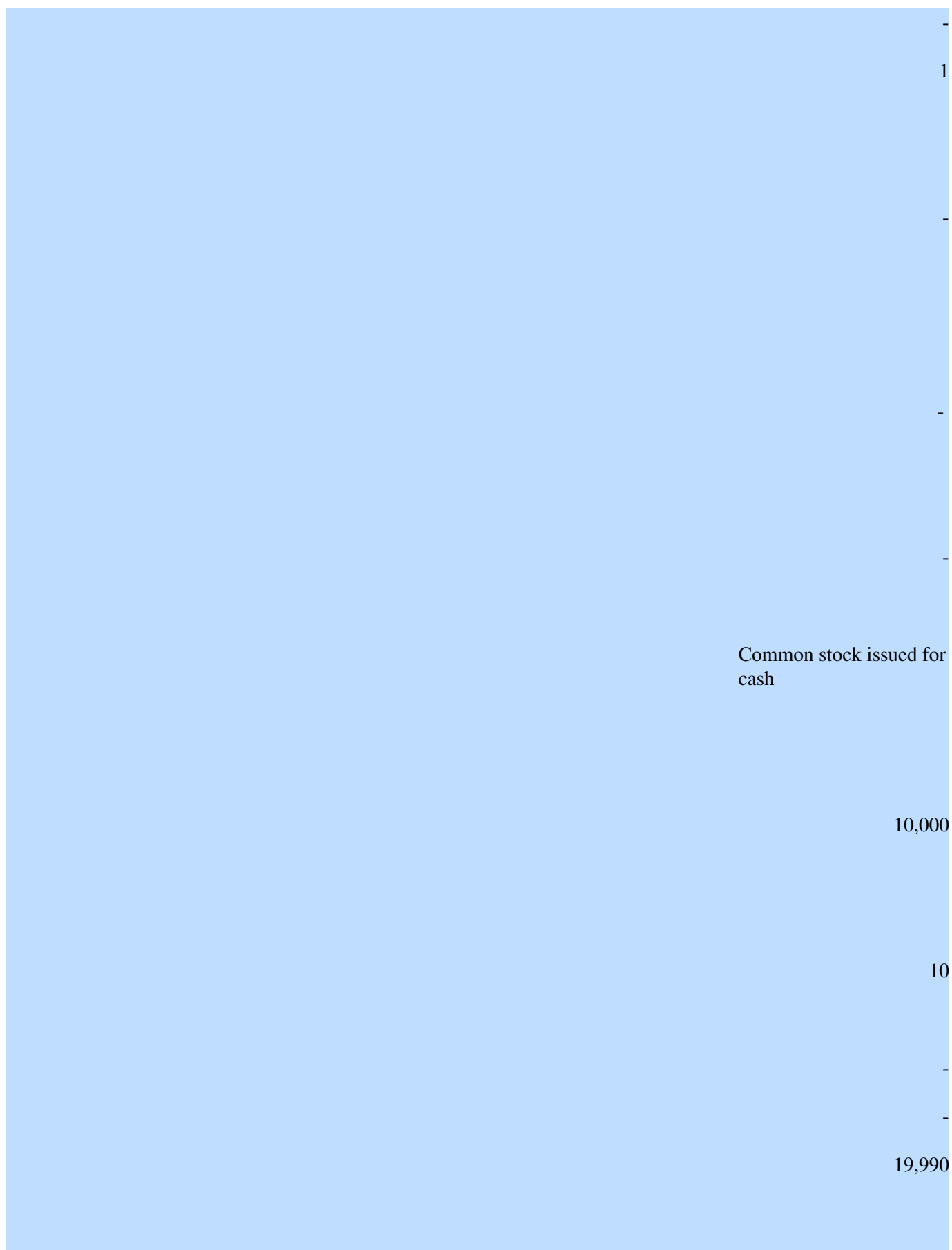
)

(7,689,956)

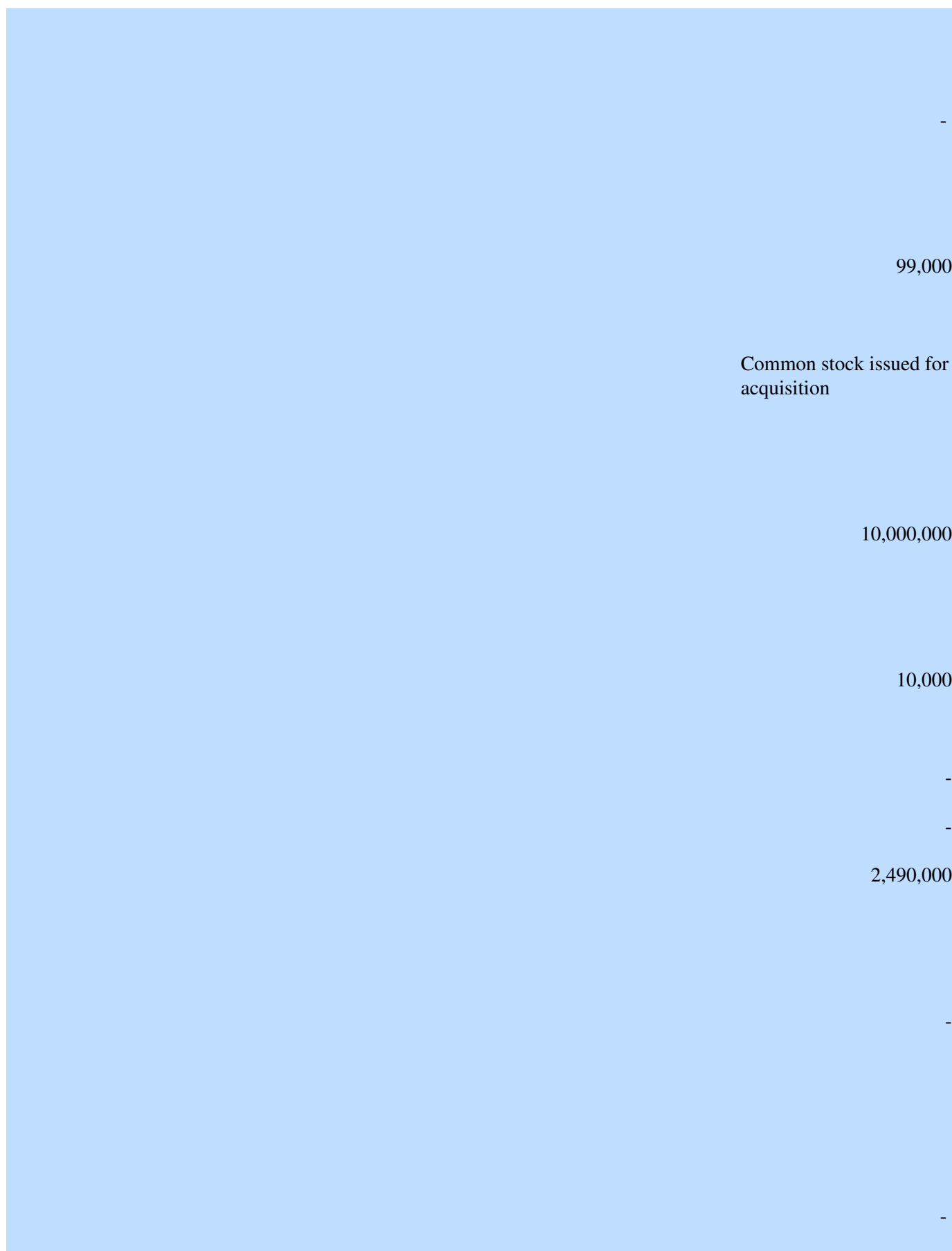
Amortization of  
Beneficial Conversion  
Feature

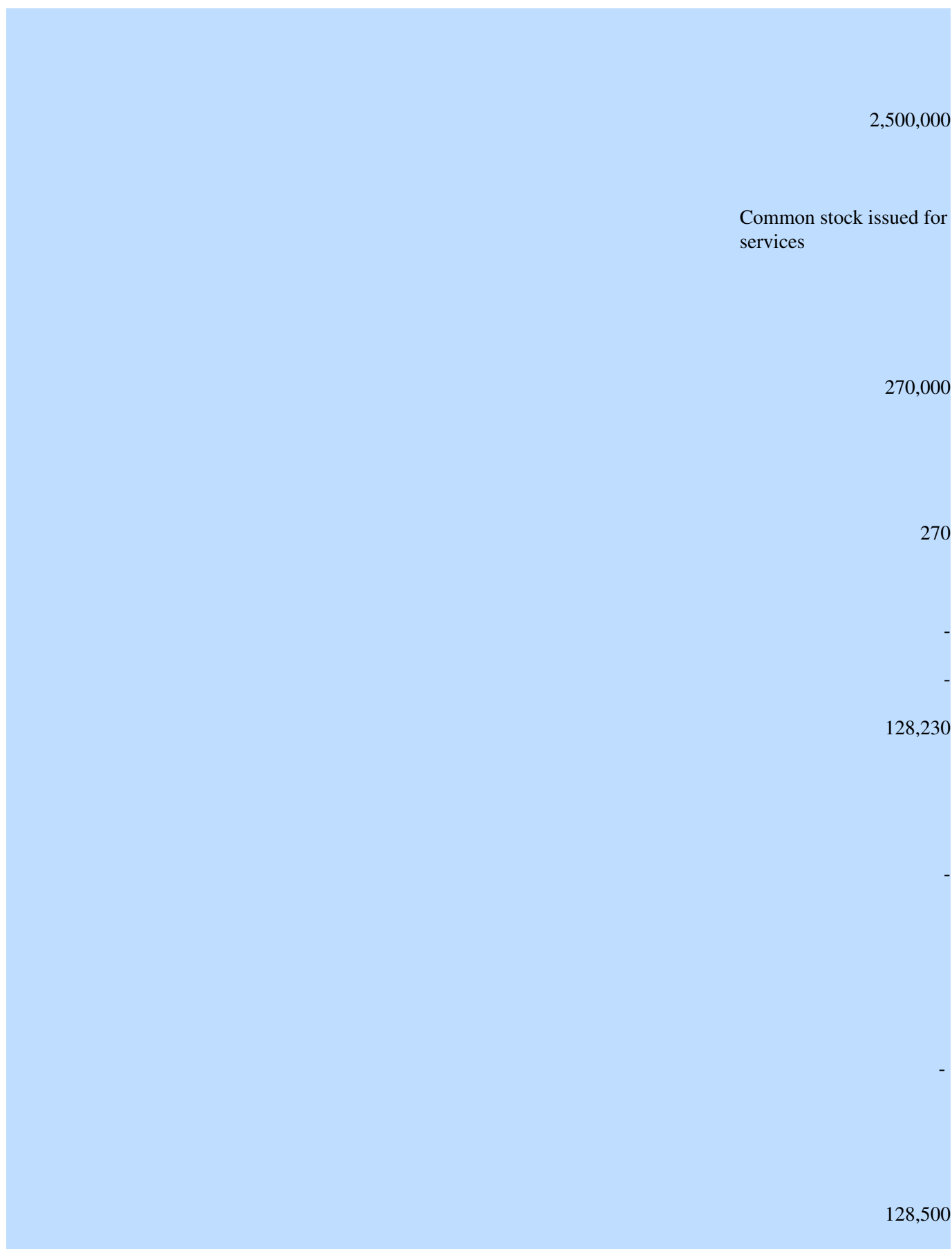


	-
	-
	-
	32,335
	-
	-
	-
	32,335
Cancellation and Amortization of Shares	
	(919)
	(1)
	-





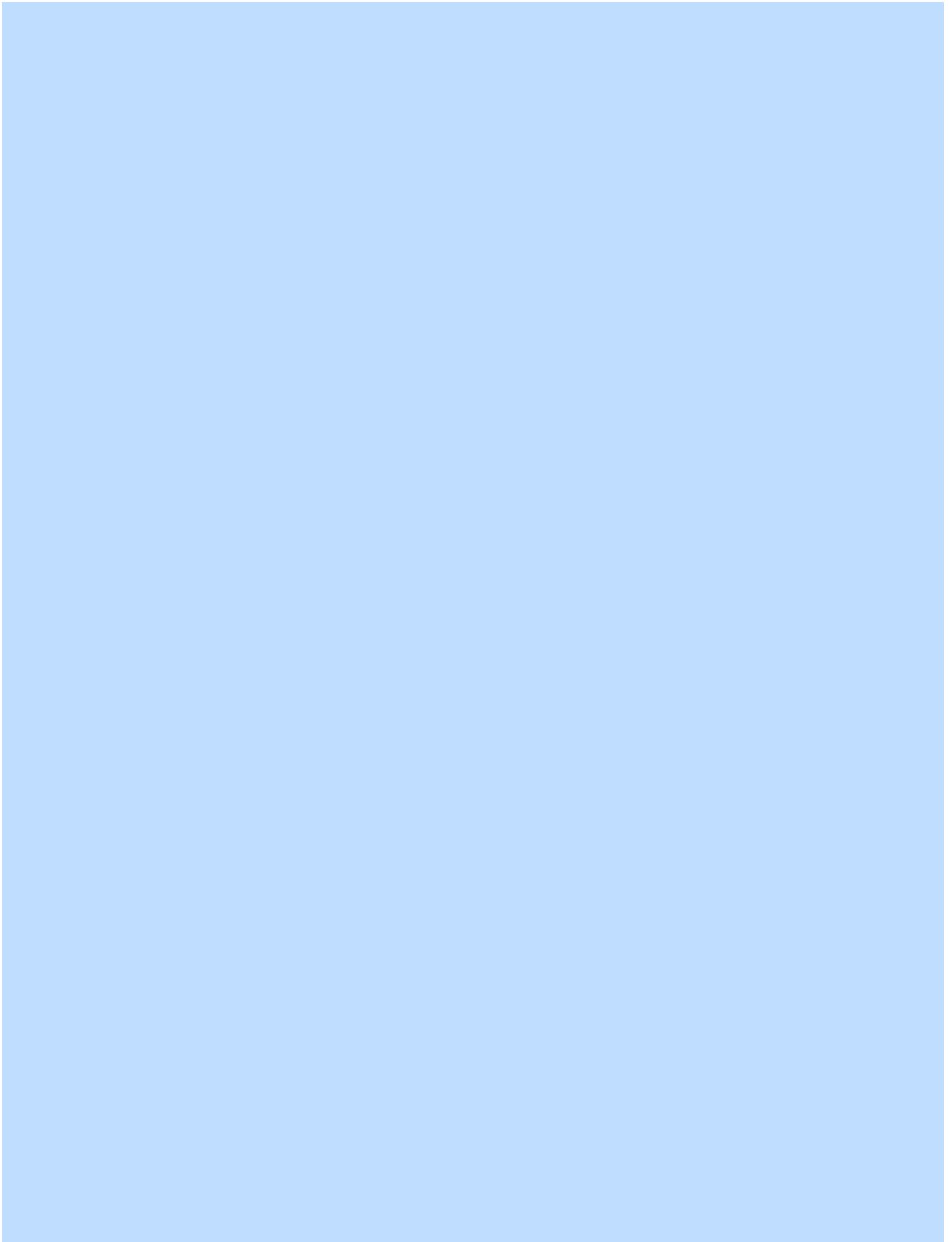




Net Income

3,559,617

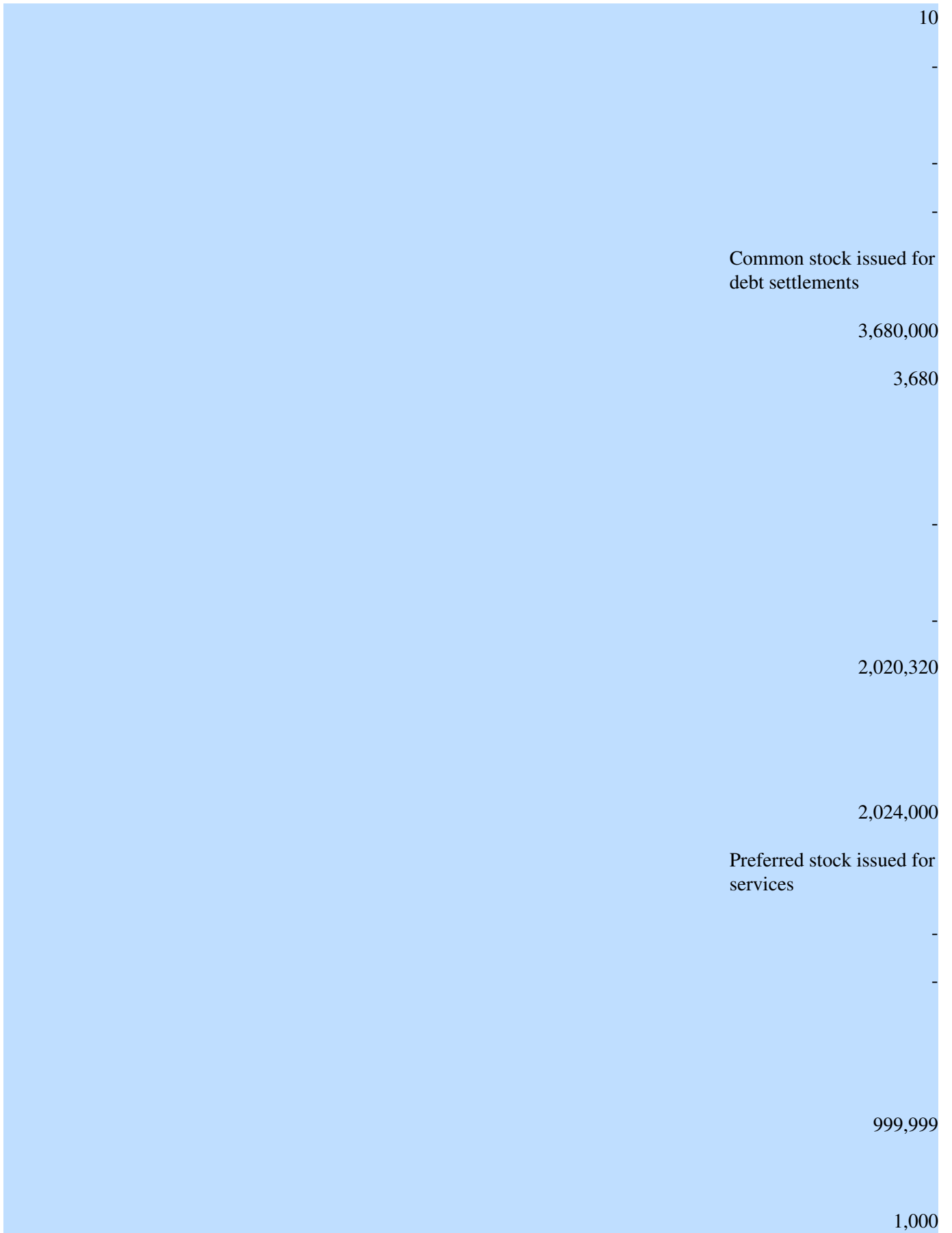
3,559,617

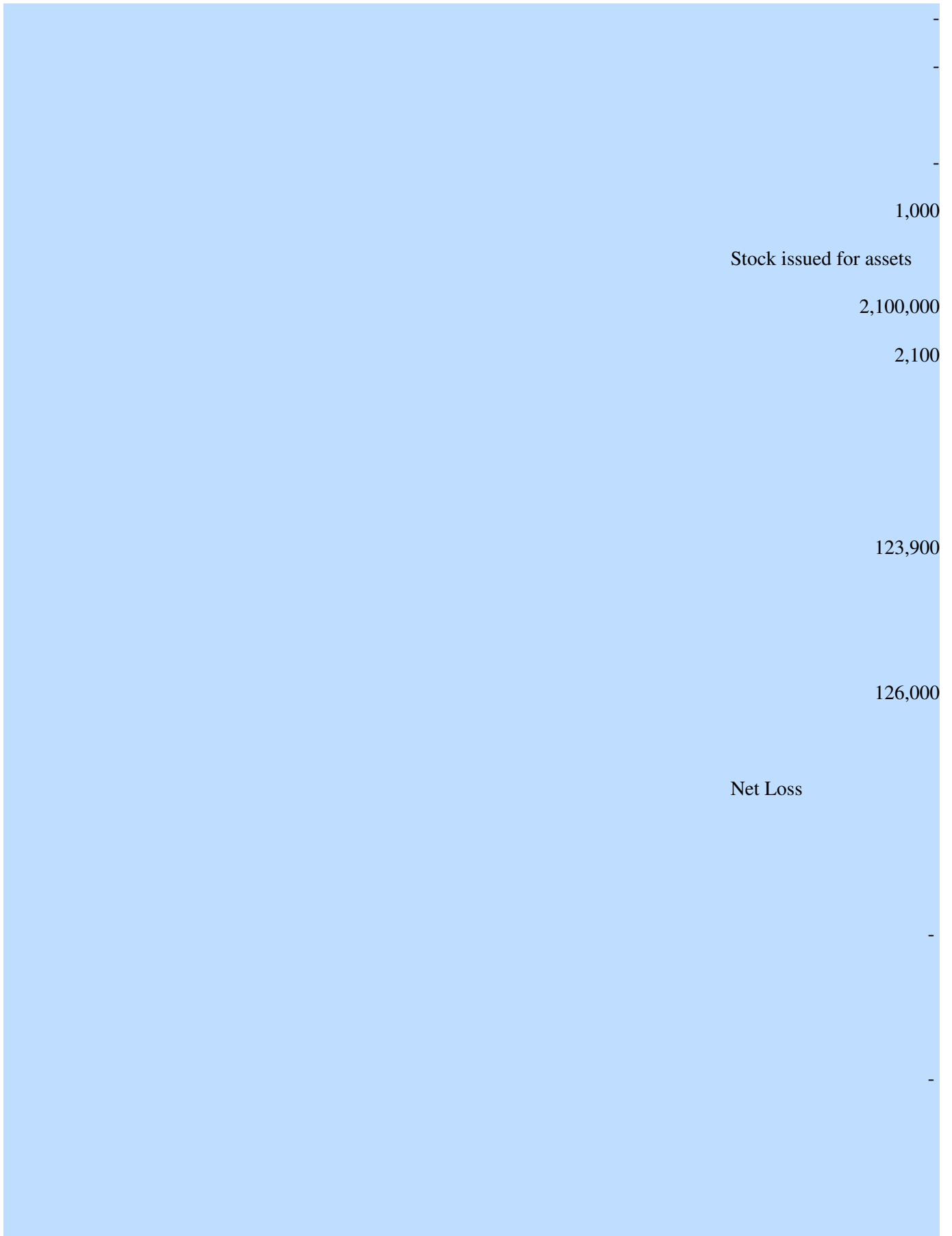


	Balance at December 31, 2008
	12,597,279
	12,597
	-
	-
	48,148,783
	-
	(49,511,884)
	)
	(1,350,504)
	Common stock issued for cash



	2,522,495
	2,523
	-
	-
	197,552
	-
	200,075
Common stock issued for services	
	8,855,000
	8,855
	-
	-
	2,507,195
	-
	2,516,050
Cancellation of stock	
	(10,000)
	(10)
	-
	-





(4,532,061

)

(4,532,061)

Balance at December 31,  
2009

29,744,774

29,745

999,999

1,000

52,997,760

-

(54,043,945

)

(1,015,440)

Common stock issued for  
cash

1,245,800

1,246

137,540

138,786

Common stock issued for  
services

26,680,000

	26,680
	-
	-
	3,670,978
	(3,530,808
)	-
	166,850

Amortization of shares  
issued for services

2,208,178



2,208,178

Common stock issued for  
debt settlements

42,750,000

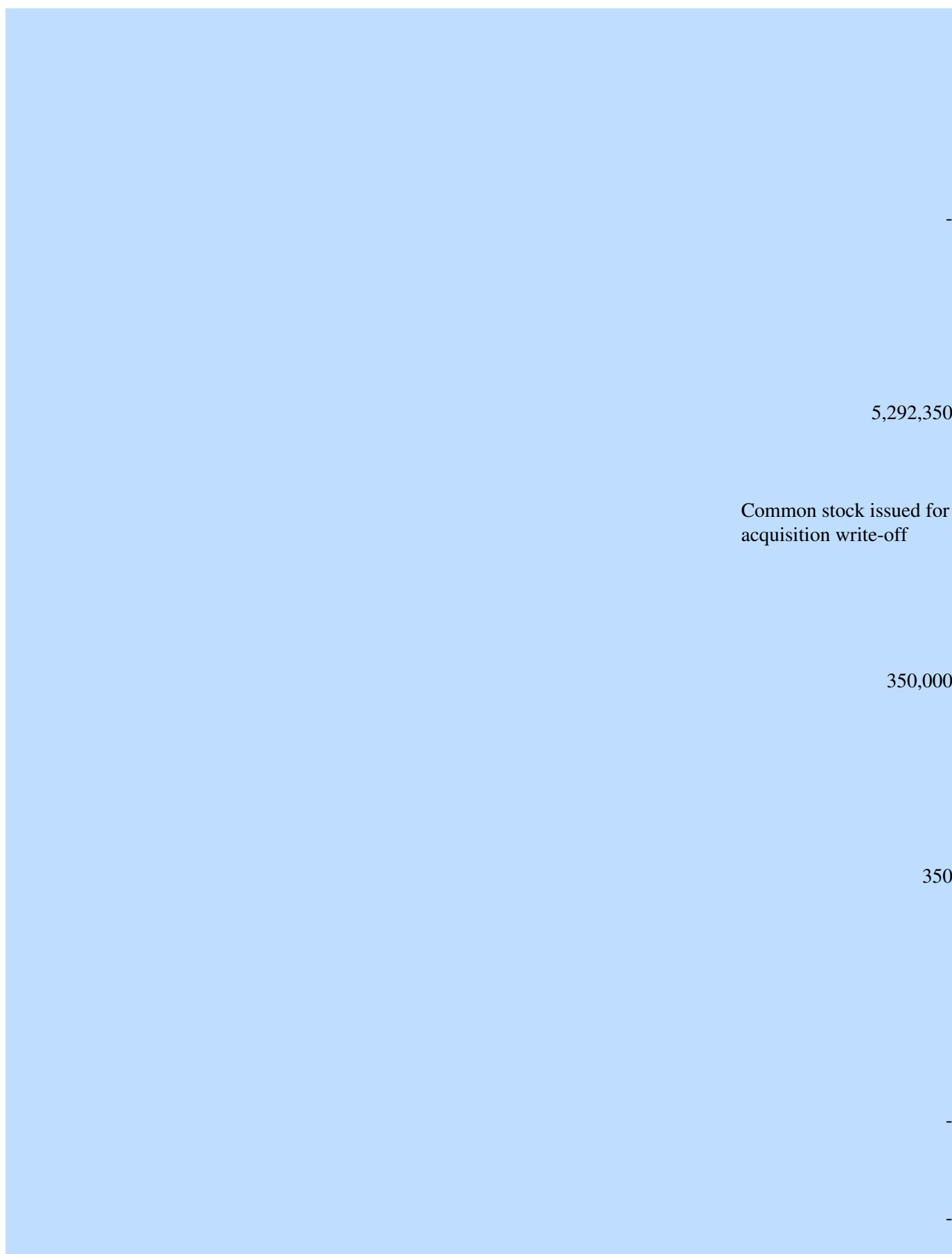
42,750

-

-

5,249,600

-

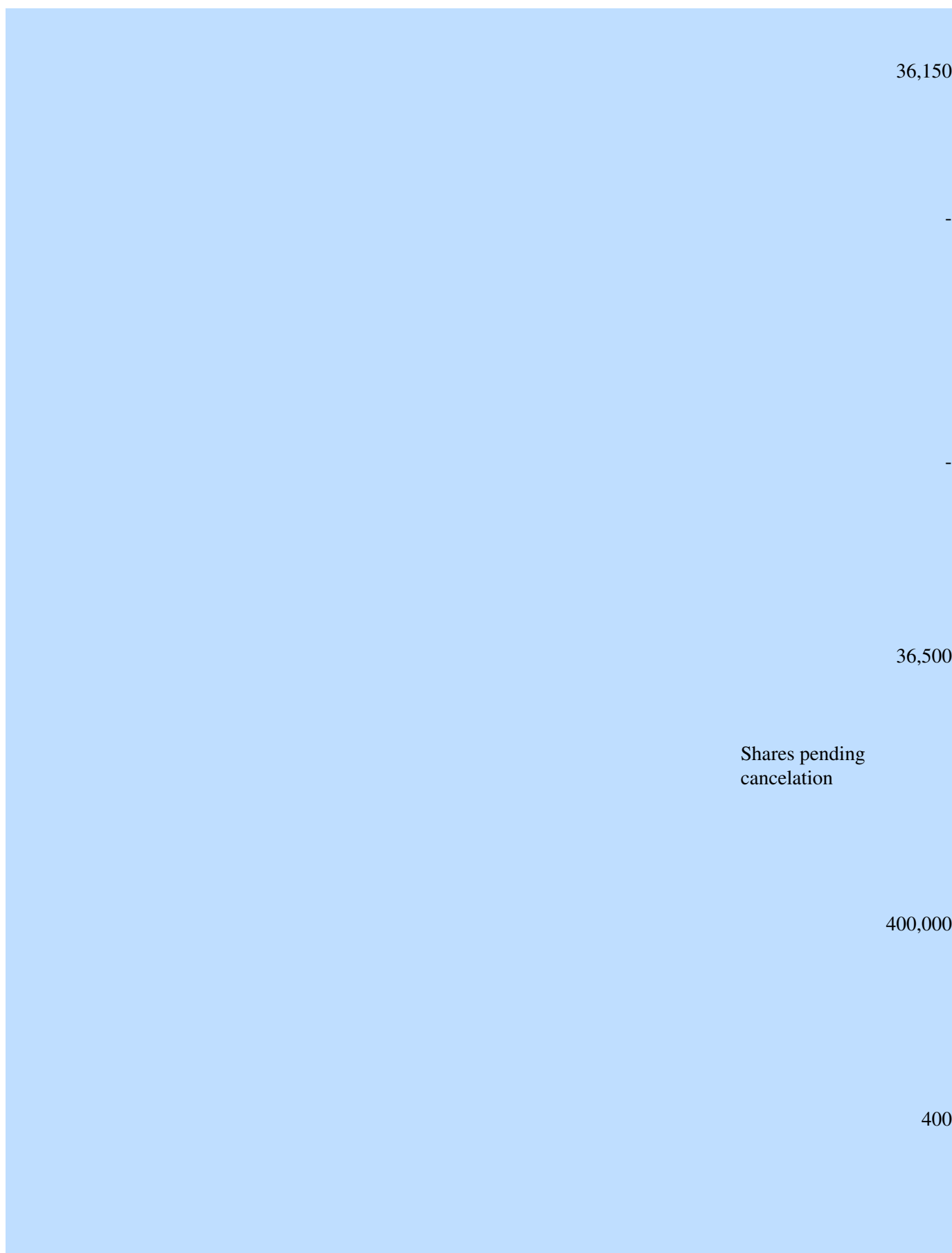


5,292,350

Common stock issued for  
acquisition write-off

350,000

350



36,150

36,500

Shares pending  
cancelation

400,000

400



(400)

Net Loss



101,171

999,999

1,000

62,091,628

(1,322,630)

(62,197,625)

(1,326,456)

Common stock issued for  
services

37,250,000

36,850

-

-

1,157,575

(1,146,700)

-

47,725

Amortization of shares  
issued for services

2,090,174

2,090,174



Common stock issued for  
debt settlements

167,400,000

167,400

-

-

5,129,800

-

-

5,297,200

Net Loss

(8,339,044)

(8,339,044)

Balance at December 31,  
2011

305,820,574

305,421

999,999

1,000

68,379,003

(379,156)

(70,536,669)

(2,230,401)

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



**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

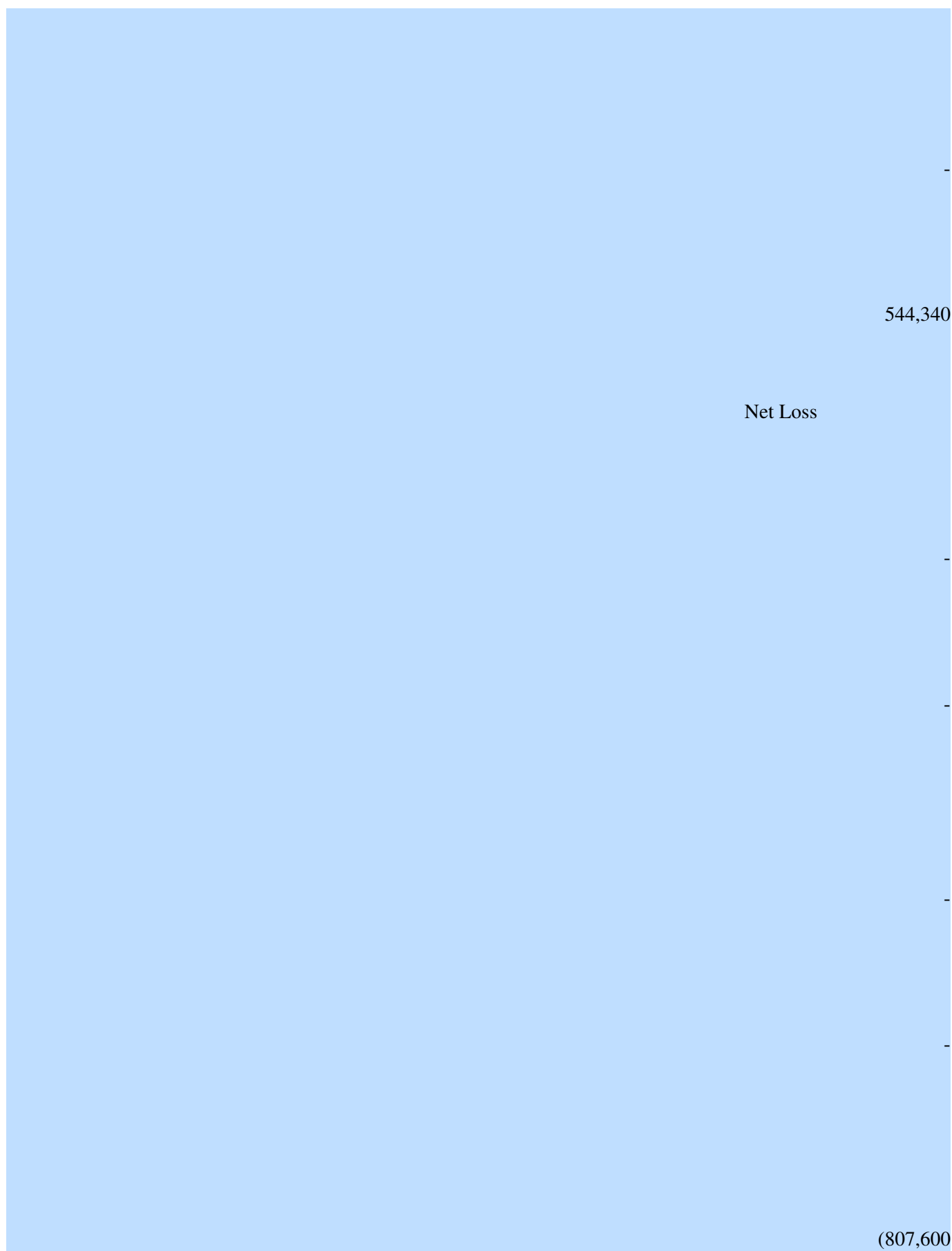
**STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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

	Common Par	Preferred Shares	Additional Paid-in Capital	Prepaid Consulting	Accumulated Deficit	Totals
	Shares	\$	\$	\$	\$	\$
Balance at January 27, 2005	-	-	-	-	-	-
Founder's Stock Issued	83,800	84	(84)	-	-	-
Stock Issued for Debt	8,000	8	399,992	-	400,000	
Shares Issued for License Agreement	86,188	86	(86)	-	-	-Effect of Reverse Merger
						13,840
						14
						(200,014)

	)
	-
	-
	(200,000
	)
Divestiture of Subsidiary to Related Party	
	-
	-
	544,340
	-





)  
(807,600  
)

Balance at December 31,  
2005

191,828

192

-

-

744,148

-

(807,600

)

(63,260

)

Shares Issued for  
Employment

45,500

45

8,487,455

-

-

8,487,500

Shares Issued for  
Services

171,080

171

28,798,329

( 7,633,750)

-

21,164,750

Shares Issued for Lease  
Agreement

6,770

7

406,193



(36,906,584

)

(36,906,584

)

Balance at December 31,  
2006

415,178

415

-

-

38,436,125

( 7,633,750)

(38,064,384

)

(7,261,594

)



Shares Issued For  
Services

63,020

63

528,285

( 387,500)

140,848

Shares Issued for Debt  
Conversion

350,000



350

349,650

350,000

Amortization of  
Beneficial Conversion  
Feature

1,066,657

-

1,066,657

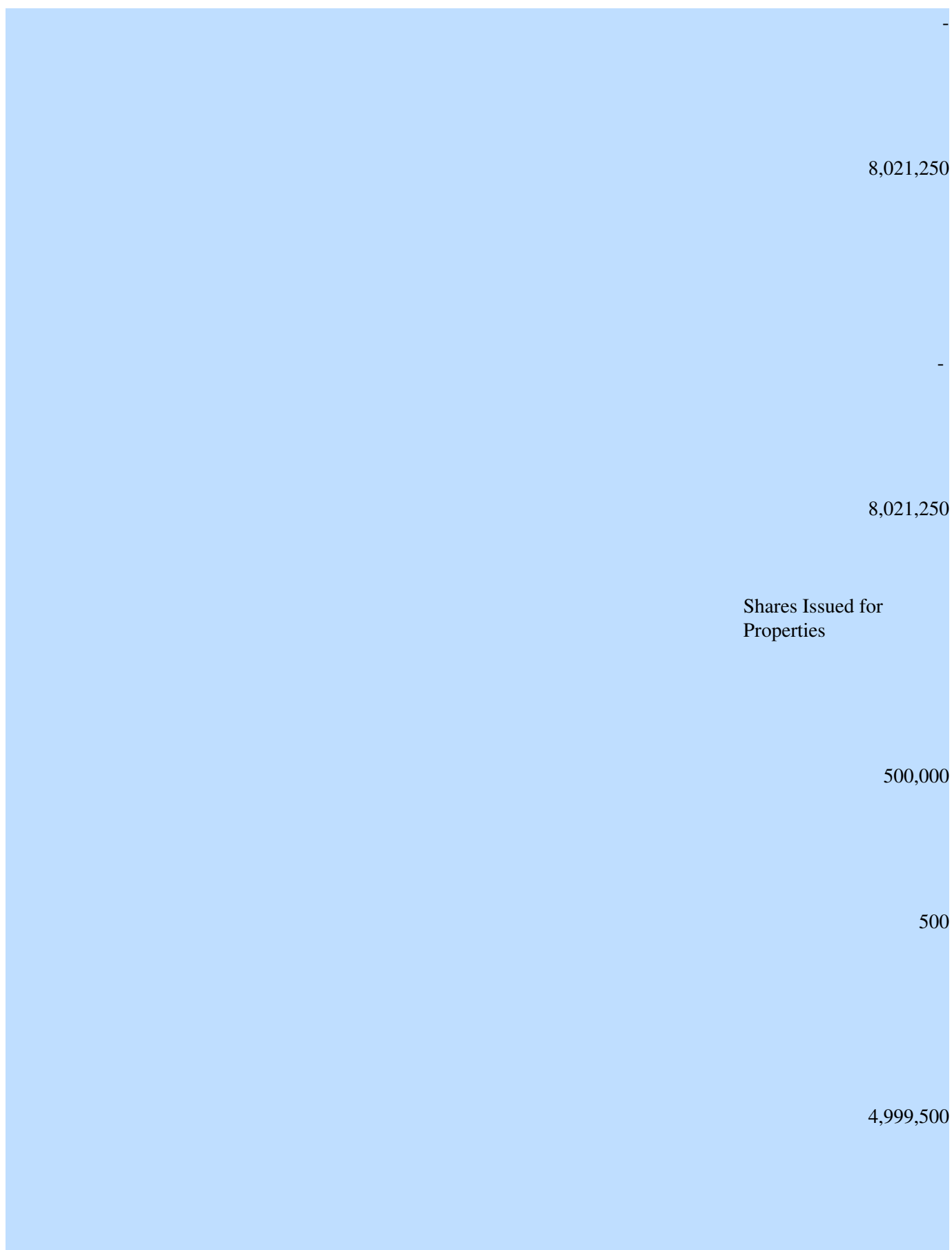
Amortization of shares  
issued for services

-

-

-

-



8,021,250

8,021,250

Shares Issued for  
Properties

500,000

500

4,999,500



5,000,000

Net loss

(15,007,117

)

(15,007,117

)

Balance at December 31,  
2007

1,328,198

1,328

-

-

45,380,217

-

(53,071,501

)  
(7,689,956  
)

Amortization of  
Beneficial Conversion  
Feature

32,335

32,335

Cancellation and  
Amortization of Shares



(919

)

(1

)

-

-

1

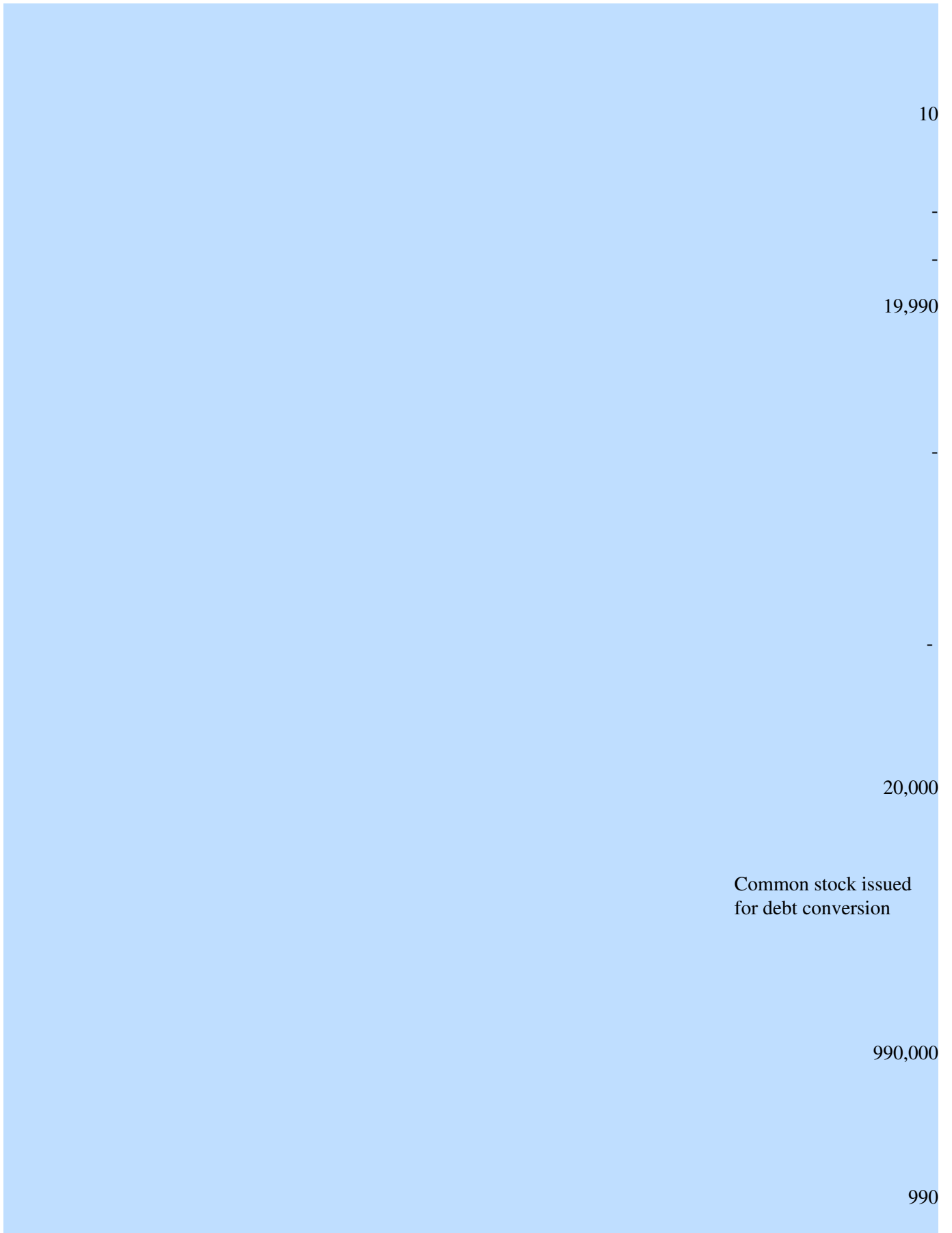
-

-

-

Common stock issued  
for cash

10,000



10

-

-

19,990

-

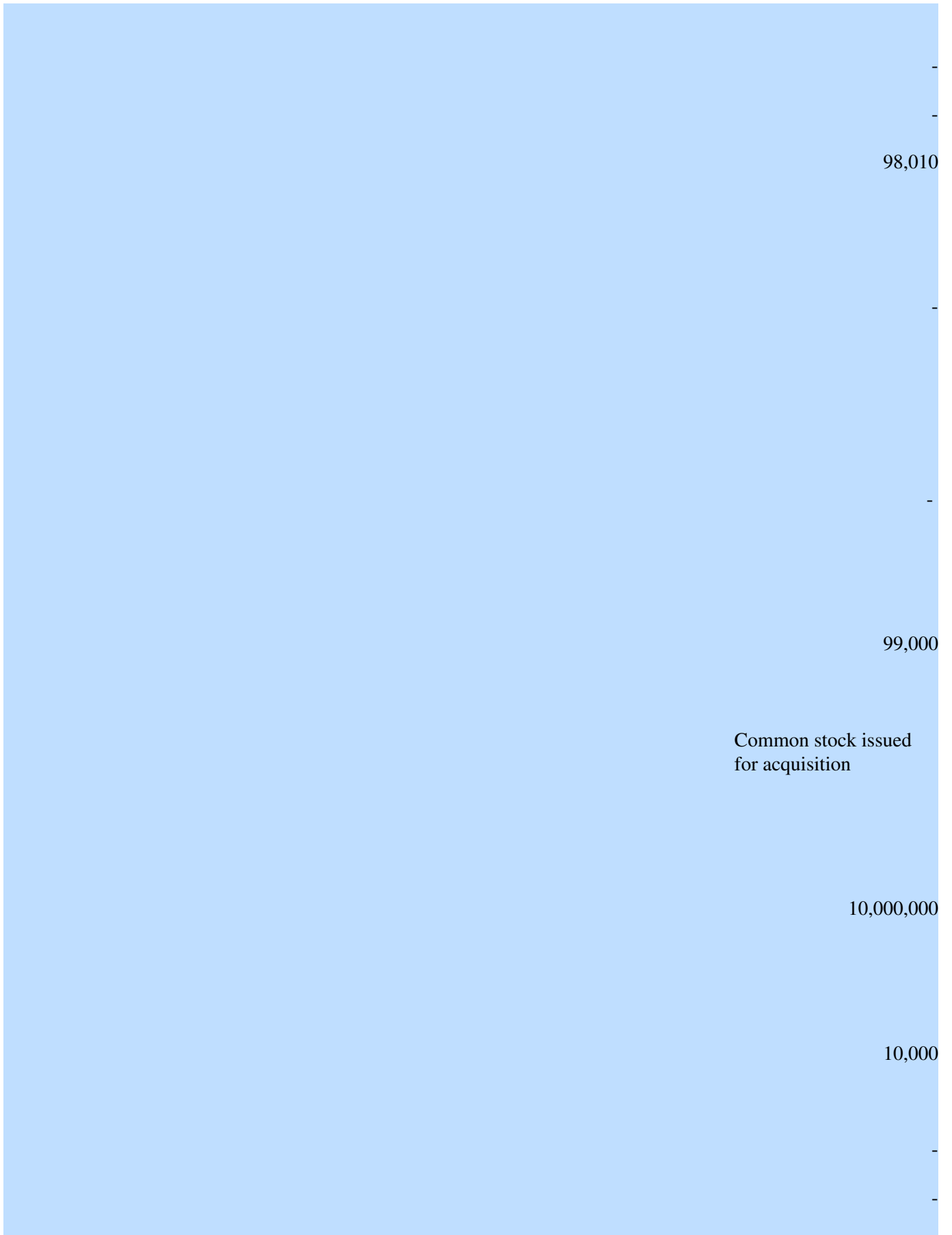
-

20,000

Common stock issued  
for debt conversion

990,000

990



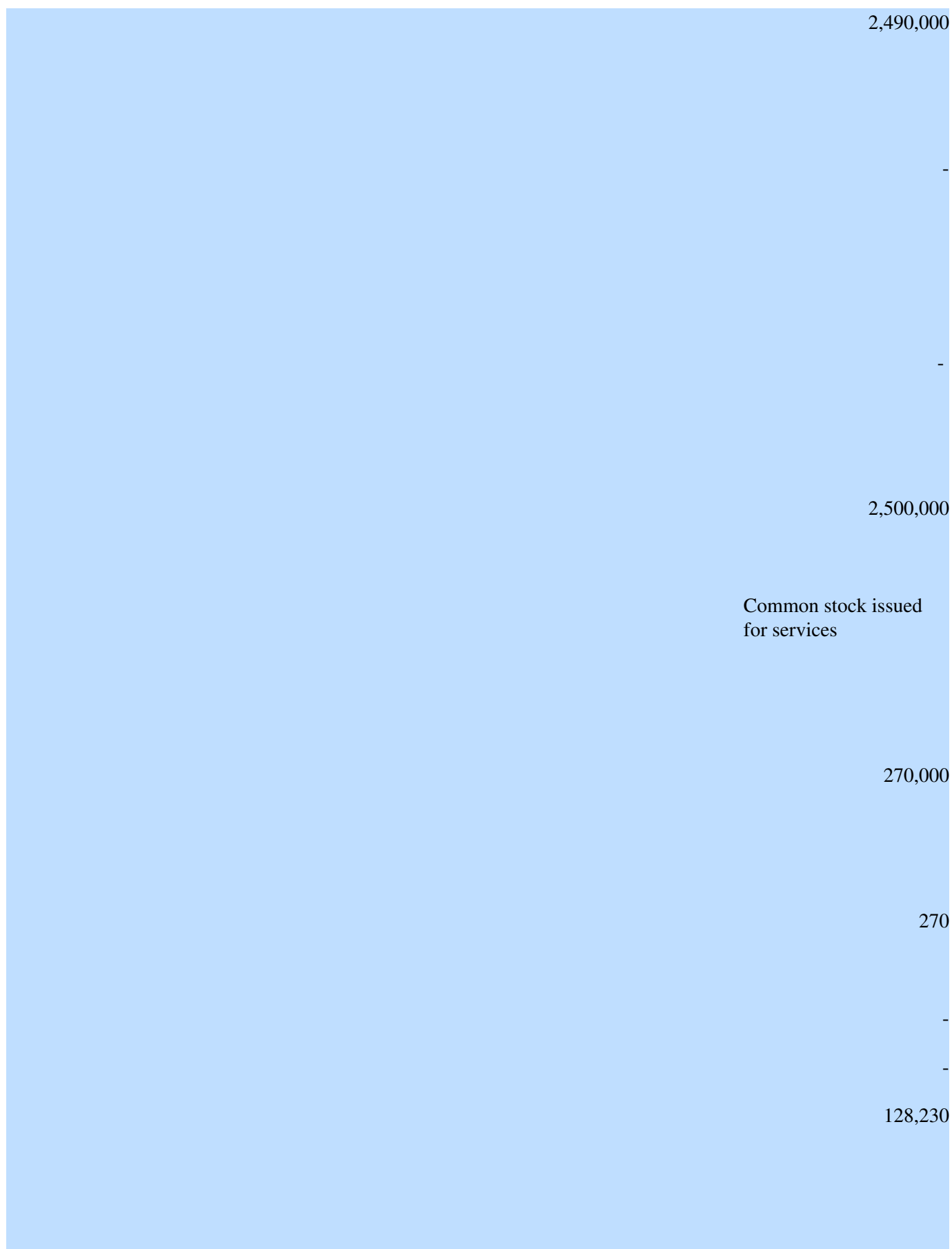
98,010

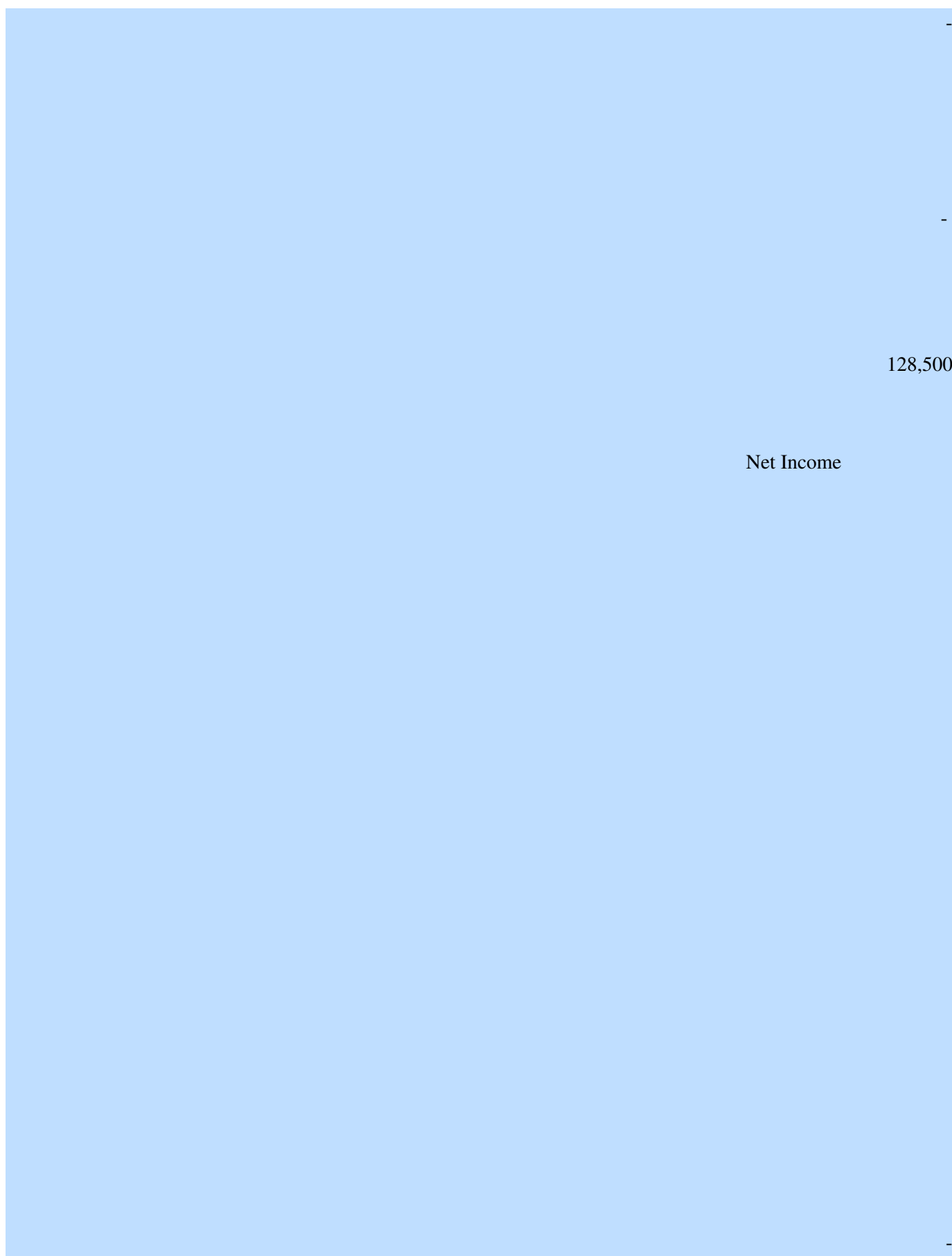
99,000

Common stock issued  
for acquisition

10,000,000

10,000





128,500

Net Income

3,559,617

3,559,617

Balance at December 31,  
2008

12,597,279

12,597

-

-

48,148,783

-

(49,511,884

)

(1,350,504

)

Common stock issued  
for cash

2,522,495

2,523

-

-

197,552

-

200,075

Common stock issued  
for services

8,855,000

8,855

-

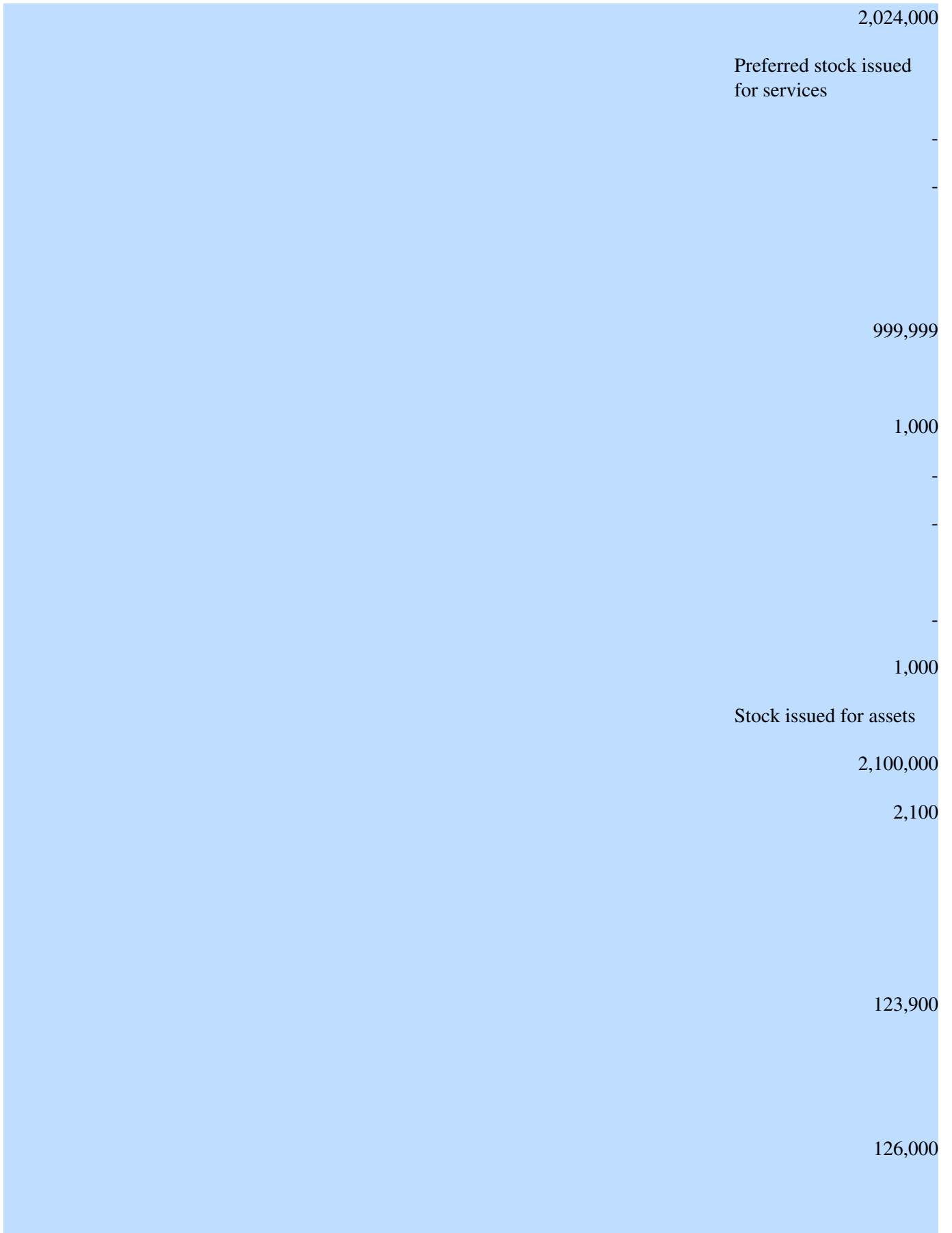
-

2,507,195

-



	2,516,050
Cancellation of stock	
	(10,000
	)
	(10
	)
	-
	-
	10
	-
	-
	-
Common stock issued for debt settlements	
	3,680,000
	3,680
	-
	-
	2,020,320



2,024,000

Preferred stock issued  
for services

-

-

999,999

1,000

-

-

-

1,000

Stock issued for assets

2,100,000

2,100

123,900

126,000

Net Loss

-

-

-

-

-

-

(4,532,061

)

(4,532,061

)

Balance at December 31,  
2009

29,744,774

29,745

999,999

1,000

52,997,760

-

(54,043,945

)

(1,015,440

		)
	Common stock issued for cash	
		1,245,800
		1,246
		-
		-
		137,540
		-
		-

138,786

Common stock issued  
for services

26,680,000

26,680

-

-

3,670,978

(3,530,808)

166,850

Amortization of shares  
issued for services

2,208,178

2,208,178

Common stock issued  
for debt settlements

42,750,000

42,750







350

36,150

36,500

Shares pending  
cancelation

400,000

400

(400

)

Net Loss

(8,153,680

)

(8,153,680

)

Balance at December 31,  
2010

101,170,574

101,171

999,999

1,000

62,091,628

(1,322,630

)

(62,197,625

)

(1,326,456

)

Common stock issued  
for services

37,250,000

36,850

-

-

1,157,575

(1,146,700

)

-

47,725

Amortization of shares  
issued for services

-

-

-

-

	-
	2,090,174
	-
	2,090,174
Common stock issued for debt settlements	
	167,400,000
	167,400





5,129,800

5,297,200

Net Loss



305,421

999,999

1,000

68,379,003

(379,156

)

(70,536,669

)

(2,230,401

)

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

F-6

**CANNABIS SCIENCE, INC.**

(A DEVELOPMENT STAGE COMPANY)

**NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2011

**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., and commenced a business plan to develop Magkelate, a patented intravenous drug developed to re-establish normal electrolyte balance in ischemic tissue and certain other patents for medical instruments and medical instrument technology. On January 14, 2000, the Company filed its Form 10SB12G. In 2002, the Company ceased its medical technology business following the death of Magkelate's inventor. The Company conducted no substantial business until 2005.

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

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

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

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

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

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

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

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

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

## ***B. Basis of Presentation***

The Company prepares its financial statements on the accrual basis of accounting. The financial statements include the accounts of Curado Energy Resources Inc., a former operating subsidiary, for the period from June 2008 through September 2008.

Cannabis Science, Inc. (formerly Gulf Onshore, Inc.), up until the June 30, 2008 filing has filed as a Development Stage Company, as defined by Accounting Standards Codification ( ASC ) Topic 915, Development Stage Entities . The Company currently files as a development stage entity and is devoting its efforts to establish new business in medical marijuana products.

### *C. Stock Splits*

On March 6, 2008 the Directors of Gulf Onshore, Inc. (the Company) announced a one for ten (1:10) reverse stock split (the Reverse Split ) and a contemporaneous one for ten (1:10) reduction in the number of the Company s authorized shares of common stock, par value \$0.001 (the "Common Stock"), in accordance with the procedure authorized by Nevada Revised Statutes ( N.R.S. ) §78.207. The Directors determined that it would be in the Company's best interest to effect the Reverse Split and approved this corporate action by unanimous written consent. The Reverse Split did not require stockholder approval. All shares referenced, except where otherwise noted, are net of the Reverse Split.



***D. Use of Estimates***

The preparation of 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 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 financial statements in the period they are determined.

***E. Cash and Cash Equivalents***

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

***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.

During the year ended December 31, 2008, the Company had acquired two oil & gas leases in two separate transactions. One lease was acquired for cash consideration of \$30,000 and the other lease was acquired in exchange of 50,000,000 (pre reverse split of March 1, 2008) shares. The lease was valued at the fair market value of the shares which was \$5,000,000.

As of December 31, 2008, the Company estimated the future cash flows expected to result from the use and eventual disposition of the two oil & well gas leases. Based on its review, the Company determined that the carrying value of the assets is not recoverable and hence the leases were determined to be impaired as of December 31, 2008. The Company recorded an impairment loss of \$5,030,000 for the year ended December 31, 2008.

In June 2008 the Company acquired eleven oil well leases in a related party transaction with the majority stockholder, K&D Investments, for 10,000,000 shares. The value of the stock at the time of the transaction was \$2,500,000 and the predecessor cost was \$100,000. Therefore, an impairment of \$2,400,000 was recorded related to the transaction and the net cost recorded on the Company's balance sheet was \$100,000. The Leases were acquired into Curado Energy Resources, Inc., the operator of the Leases, which the Company acquired from South Beach Live, Inc., its most significant creditor.

Throughout 3Q 2008, declining oil prices and increased operating costs made continued oil and gas operations on the Leases unprofitable, and the Company was continually drawing down on its Line of Credit Agreement with South Beach. In exchange for concessions from South Beach regarding further cash advances and future stock conversions, in August 2008, the Company agreed to grant South Beach a security interest in its South Beach shares.

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

#### ***G. Fair Value of Financial Instruments***

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

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

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#### ***H. Fair Value Measurements***

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

### ***I. Technology License and Royalties***

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

The Company is entitled to an annual license fee of \$25,000 for the first year, \$50,000 for the second year, \$75,000 for the third year, \$100,000 for the fourth year and \$150,000 for the fifth and successive years, in addition to royalty license fees for 50% of all revenues, receipts, monies and the fair market value of any securities directly or indirectly received by Rockbrook, Inc. as a result of and pursuant to the license agreement entered into with the Company on July 30, 2010. As of December 31, 2011, the Company is re-assessing the license agreement with Rockbrook and how to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on. (See Financial Statement Note 6(c))

### ***J. Stock-Based Compensation***

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

### ***K. Income Taxes***

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

differences between the recognition of assets and liabilities for book and tax purposes during the year.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized for deductible temporary differences and operating loss, and tax credit carry forwards. A valuation

allowance is established to reduce that deferred tax asset if it is "more likely than not" that the related tax benefits will not be realized.

### **Unfiled Federal Tax Returns**

In February 2009, the Company filed appropriate federal tax returns for the years ending December 31, 2003 through 2007 and may be subject to failure to file penalties. For the years ending December 31, 2008 through December 31, 2011, the Company has not filed any federal tax returns. The Company estimates that the amount of penalties, if any, will not have a material effect on the results of operations, cash flows or financial position. No provisions have been made in the financial statements for such penalties, if any.

### ***L. Basic and Diluted Net Earnings (loss) per Share***

Under ASC Topic 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2010 to December 31, 2011, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

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### ***M. Development Stage Enterprise***

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

### ***N. Recent Accounting Pronouncements***

During the year ended December 31, 2011 and through April 16, 2012, there were several new accounting pronouncements issued by the FASB the most recent of which was update no. 2011-12 Comprehensive Income: Deferral of the Effective date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05. 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.

### ***O. Reclassifications***

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

## **2. GOING CONCERN**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate the continuation of the Company as a going concern. The Company reported an accumulated deficit of \$70,536,669 and had a stockholder's deficit of \$2,230,401 at December 31, 2011.

In view of the matters described, there is substantial doubt as to the Company's ability to continue as a going concern without a significant infusion of capital. At December 31, 2011, the Company had no direct operations and one license agreement for its products. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

### **3. 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 \$7,128,603 (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, 2011 and 2010, the Company had available federal and state net operating loss (NOL) carryforwards amounting to approximately \$21,000,000 and \$12,600,000, respectively, that are available to offset future federal and state taxable income and that expire in various periods through 2031 for federal tax purposes and 2016 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, 2011 and 2010.

2011

2010

Deferred  
tax assets:

NOL  
expense  
(benefit)

\$

(7,128,603

)

\$

(4,300,931

)

Less:  
valuation



allowance

7,128,603

4,300,931

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, 2011 and 2010 is as follows:

2011

2010

Income tax  
expense  
(benefit) at

statutory  
federal rate

\$

(2,827,672)

34%

\$

(2,775,142)

34%

State income  
taxes

-

NOL  
limitation  
(Note 3)

-

Increase  
(decrease) in  
valuation  
allowance

2,827,672

-34%

2,775,142

-34%

Income tax  
expense  
(benefit) at

Company's  
effective tax  
rate

\$

-

0%

\$

-

0%

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#### **4. EQUITY TRANSACTIONS**

The Company is authorized to issue 850,000,000 shares of common stock with a par value of \$.001 per share. These shares have full voting rights. There were 305,820,574 issued and outstanding as of December 31, 2011.

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The Company is also authorized to issue 100,000,000 shares of common stock, Class A with a par value of \$.001 per share. These shares have 10 votes per share. There were 0 issued and outstanding as of December 31, 2011.

The Company is also authorized to issue 1,000,000 shares of preferred stock. These shares have full voting rights of 1,000 votes per share. There were 999,999 issued and outstanding as of December 31, 2011.

On October 4, 2011, the Company issued 6,500,000 common shares from the Company's 2011 Stock Compensation Plan B to two consultants for services rendered with a fair market value of \$156,000 based on the closing price of the Company's common stock on September 28, 2011 which was \$0.024 per share.

On October 12, 2011, the Company issued 8,000,000 common shares for settlement of \$8,000 of stockholder debt, for a loss on settlement of \$168,000, assigned from the stockholder note payable originating on July 15, 2010 and July 30, 2010, and owing at December 31, 2010.

On October 13, 2011, the Company issued 3,000,000 common shares for settlement of \$3,000 of stockholder debt, for a loss on settlement of \$64,200, assigned from the stockholder note payable originating on March 2, 2011.

On October 13, 2011, the Company issued 4,500,000 common shares from the Company's 2011 Stock Compensation Plan B to a consultant for services rendered with a fair market value of \$100,800 based on the closing price of the Company's common stock on October 11, 2011 which was \$0.0224 per share.

On October 26, 2011, the Company issued 5,800,000 common shares for settlement of \$5,800 of stockholder debt, for a loss on settlement of \$165,200, assigned from the stockholder note payable originating on July 15, 2010 and August 5, 2010, and owing at December 31, 2010.

On November 4, 2011, the Company issued 30,000,000 common shares for settlement of \$30,000 of stockholder debt, for a loss on settlement of \$570,000, assigned from the stockholder note payable originating on August 16, 2010, September 2, 10, 14, and 17, 2010 and October 7 and 13, 2010, and owing at December 31, 2010.

On November 22, 2011, the Company issued 17,000,000 common shares for settlement of \$17,000 of stockholder debt, for a loss on settlement of \$323,000, assigned from the stockholder note payable originating on August 16, 2010, September 2, 10 and 14, 2010 and October 13, 2010, and owing at December 31, 2010.

On November 23, 2011, the Company issued 9,000,000 common shares for settlement of \$9,000 of stockholder debt, for a loss on settlement of \$171,000, assigned from the stockholder note payable originating on August 16, 2010, and owing at December 31, 2010.

On December 9, 2011, the Company issued 13,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$256,500, assigned from the stockholder note payable originating on March 2, 2011.

On December 21, 2011, the Company issued 18,500,000 common shares for settlement of \$18,500 of stockholder debt, for a loss on settlement of \$166,500, assigned from the stockholder note payable originating on October 13, 2010 and May 18, 2011.

On December 28, 2011, the Company issued 5,500,000 common shares for settlement of \$13,500 of stockholder debt, for a loss on settlement of \$256,500, assigned from the stockholder note payable originating on March 2, 2011.

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***A. Warrants***

A summary of the warrant activity for the years ended December 31, 2011 and 2010 is as follows:

Warrants Outstanding

Weighted Average Exercise Price

Outstanding, December 31, 2009

180,000

\$

67.00

Granted

-

-

Forfeited / Cancelled

(180,000)

-

Exercised

-



-

Outstanding, December 31, 2010

-

-

Granted

-

-

Forfeited /  
Cancelled

-

-

Exercised

-

-

Outstanding,  
December  
31, 2011

-

-

In February 2005, the Company issued a warrant to acquire up to 600,000 shares of unregistered common stock at an exercise price of \$0.60 per share to W.B. International, Inc., in exchange for consulting services. All shares vested upon grant. The warrant expired in February 2010.

In June 2005, the Company issued a warrant to acquire up to 600,000 shares of unregistered common stock at an exercise price of \$0.70 per share to each of Liquid Stone Manufacturing, Inc. and Stone Mountain Finishes, Inc. in consideration of certain license agreements. All shares vested upon grant. The warrants expired in June 2010.

No warrants were outstanding at December 31, 2011 and 2010. Therefore, there is no applicable weighted-average remaining contractual life to report. During the years ended December 31, 2011 and 2010 the Company has not issued any warrants.

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### ***B. Employee Options***

On April 3, 2006, the Board of Directors of the Company authorized and approved the adoption of the 2006 Stock Option Plan effective April 3, 2006 (the "Plan"). The Plan is administered by the duly appointed compensation committee. The Plan is authorized to grant stock options of up to 2,500,000 shares of the Company's common stock. At the time a stock option is granted under the Plan, the compensation committee shall fix and determine the exercise price and vesting schedules at which such shares of common stock of the Company may be acquired. As of December 31, 2011 and 2010, no options to purchase the Company's common stock have been granted under the Plan.

In September, 2006, the Board of Directors of the Company authorized and approved the adoption of the 2006-1 Consultants and Employees Service Plan effective September 7, 2006 (the "Consultants Plan"). The Plan is administered by the duly appointed compensation committee. The Plan is authorized to grant stock options and make stock awards of up to 38,000 shares of the Company's common stock. At the time a stock option is granted under the Plan, the compensation committee shall fix and determine the exercise price and vesting schedules at which such shares of common stock of the Company may be acquired. The Consultants Plan was registered on September 15, 2006 and as of December 31, 2006 a total of 37,990 shares had been issued and granted under the Consultants Plan. During 2011 and 2010 no additional shares were issued.

### ***C. Equity Compensation Plans***

On January 25, 2011, the Company created a 2011 Stock Compensation Plan: authorizing the issuance of up to 15,000,000 common shares to staff or consultants for services rendered to or on behalf of the Company. The Company filed a Registration Statement on Form S-8, file no. 333-171850, to register the shares.

On September 19, 2011, the Company created a 2011 Stock Compensation Plan B: authorizing the issuance of up to 15,000,000 common shares to staff or consultants for services rendered to or on behalf of the Company. The Company filed a Registration Statement on Form S-8, file no. 333-176910, to register the shares.

There were no options outstanding at December 31, 2011.

## **5. RELATED PARTY TRANSACTIONS**

On October 8, 2008, the Company entered into a line-of-credit agreement with South Beach Live, Inc. ( SBL ). During 2009, borrowings under this agreement totalled \$48,469 which was settled through the issuance of common stock on November 6, 2009 (see below).

On March 25, 2009 Summitt Oil & Gas, Inc. ( SUMMITT ) and 364 Melissa, Ltd. ( MELISSA ) entered into a purchase and sale agreement whereas SUMMITT agreed to assign its rights with respect to debt of \$814,742 plus accrued interest and to sell 400,000 shares of restricted stock for a total of \$50,000. The debt comprises the Secured Convertible Note issued on January 5, 2007, in the amount of \$650,000, further advances of \$164,742 (total \$814,742) and accrued interest of \$136,346. The note is convertible into common stock at \$0.01 per share. The conversion feature of the note is at the option of the note holder and therefore the Company has not accounted for any related expense.

On November 6, 2009 the debt owed to SBL and MELISSA was settled through the issuance of common stock and assignment. The loss on settlement of debt of \$1,458,838 is reflected in the accompanying statement of operations. The remaining \$510,000 of the convertible note was assigned from MELISSA to a stockholder of the Company.

During 2010, the stockholder sold the majority of the note payable totaling \$509,991, which was converted at between \$0.001 and \$0.10 per share into 42,750,000 common shares by the purchasers of the debt as settlement.

The Company accrued \$750,000 in management fees and bonuses to directors, officers, and a consultant for the year ended December 31, 2011 compared to \$675,000 for the year ended December 31, 2010. A total of \$1,425,000 remains outstanding at December 31, 2011 and as of the filing date of this Form 10-K.

Advances from related parties totaled \$156,818 and \$107,835 at December 31, 2011 and 2010, respectively. These advances are non-interest bearing and are due upon demand.

Advances from stockholders totaled \$194,413 and \$171,509 at December 31, 2011 and 2010, respectively.

The Company borrowed \$193 and repaid \$2,000 to an officer during the year ended December 31, 2011.

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## **6. COMMITMENTS AND CONTINGENCIES**

### **A.**

#### ***Legal***

The Company is not currently aware of any formal legal proceedings or claims that the Company believes will have, individually or in the aggregate, a material adverse effect on the Company's financial position or results of operations.

### **B.**

#### ***Operating Leases***

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

The Company has a commitment of \$50,000 in regards to the termination of its previous lease at 2422 S. Trenton Way, Unit H, Denver, CO 80231. This amount was paid as of March 2012.

### **C.**

***Liabilities***

Included in Accrued expenses on the balance sheet at December 31, 2011, the Company had payables totaling \$35,791 to two former directors, one attorney and a consultant that were incurred in 2006 and 2005, respectively.

The attorney represented a former related party when it was in negotiations to acquire the Company in 2005. The Company's position is that this is not its liability as it did not contract the attorney and reversed the liability based on legal opinion.

The former directors were awarded severance agreements in June 2006 shortly before resigning from the Company. The states statute of limitations expired in June 2010 and the Company accordingly adjusted the liabilities to \$0 as no demand was received.

In February 2009, the Company filed appropriate federal tax returns for the years ending December 31, 2003 through 2007 and may be subject to failure to file penalties. From December 31, 2008 through December 31, 2010, the Company did not file any federal tax returns. The Company estimates that the amount of penalties, if any, will not have a material effect on the results of operations, cash flows or financial position. No provisions have been made in the financial statements for such penalties, if any.

The Company entered into a license agreement with Rockbrook, Inc. on July 30, 2010. Under the agreement, the Company is entitled to an annual license fee of \$25,000 for the first year, \$50,000 for the second year, \$75,000 for the third year, \$100,000 for the fourth year and \$150,000 for the fifth and successive years, in addition to royalty license fees for 50% of all revenues, receipts, monies and the fair market value of any securities directly or indirectly received by Rockbrook, Inc. as a result of and pursuant to the license agreement. As of December 31, 2011, the Company is re-assessing the license agreement with Rockbrook and how to move forward in a cohesive arrangement with the other license agreements and acquisitions the Company is working on.

As of December 31, 2011, the Company recognized \$73,702 as license revenue for fiscal 2011 and \$4,166 for fiscal 2010.

## **7. EQUIPMENT**

	2011
	\$
	2010
	\$
Equipment	
	967
	1,567
Computers	
	-
	614
	967
	2,181

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

## **8. INTANGIBLE ASSETS**



	2011
	\$
	2010
	\$
Intellectual assets, primarily intellectual property	
	126,000126,000
Less: accumulated amortization	
	(78,412)
	(57,264)
Net intellectual assets	47,58868,736

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). Amortization expense is expected to approximate \$21,000 each year for the next two years and 5,736 in year three.

**9. DISCONTINUED OPERATIONS**

On October 22, 2008, the Company and South Beach Live, Inc. (SBL) entered into an Accord and Satisfaction Agreement wherein SBL agreed to release the Company from its obligation under the \$250,000 Promissory Note in exchange for the Company's oil and gas lease, the Putnam M, and a surrender of any claim to the shares of Curado which were being held by SBL under a Security Agreement. SBL then exercised its right to acquire the shares of Curado thereby taking ownership of the assets and liabilities of Curado. The Company has reclassified the financial results of Curado for the period June 6, 2008 through September 30, 2008 as discontinued operations. The following table sets forth the significant components of the loss from discontinued operations:

Revenue from oil and gas sales	
	\$ 447,412
Lease operating expenses	
	( 230,164
	)
Other operating expenses	
	( 146,067
	)
Impairments	
	( 2,400,000
	)
Loss on disposition of subsidiary	
	( <u>97,050</u>
	)
Loss before provision for income taxes	
	(2,425,869

)

Income tax credit

824,795

Loss from discontinued operations

\$ (1,601,074

)

## **10. SUBSEQUENT EVENTS**

On February 9, 2012, the Company established a 2012 Equity Compensation Plan that authorizes the Company to issue up to 50,000,000 common shares to staff or consultants for services to or on behalf of the Company. The Company filed a Registration Statement Form S-8 with the U.S. Securities and Exchange Commission on February 14, 2012, file no. 333-179501, to register the shares covered under the plan.

On February 24, 2012, the Company issued 3,000,000 common shares from the Company's 2012 Equity Compensation Plan to a consultant for services rendered with a deemed fair value of \$246,000, or \$0.082 per share based on the closing price of the Company's stock on February 23, 2012.

The aforementioned shares were registered on Form S-8 with the SEC on February 14, 2012, file no. 333-179501.

On January 13, 2012, the Company issued 1,000,000 common shares for settlement of \$1,000 of stockholder debt, for a loss on settlement of \$28,500, assigned from the stockholder note payable originating on June 25, 2011 and owing at December 31, 2011.

On January 20, 2012, the Company issued 46,500,000 common shares for settlement of \$46,500 of stockholder debt, for a loss on settlement of \$2,613,300, assigned from the stockholder notes payable originating on March 2, March 29, April 2, June 30, and July 1, 2011 and owing at December 31, 2011.

On February 9, 2012, the Company signed a license agreement with Apothecary Genetics Investments LLC. to produce several Cannabis Science Brand Formulations for the California medical cannabis market. As well, Apothecary will provide research and development facilities with full circle operations including a California laboratory facility for internal research and development, along with 16 unique genetic strains specifically generated

and maintained by a cancer survivor who recognizes the importance of proper growth and breeding. In consideration of this agreement, on January 1, 2012, the Company entered into a 25 year management agreement with Dr. Mohammad Afaneh to act Chief Operating Officer of Cannabis Science, Inc. Dr. Afaneh received 28,500,000 common shares valued at \$299,250 under this agreement. In addition, on February 10, 2012, Dr. Afaneh signed a management bonus agreement where he received 5,000,000 common shares valued at \$185,000 as a signing bonus for entering into his management agreement. In addition, on January 1, 2012, the Company entered into a 25 year management agreement with Bret Bogue to act as Director of Horticulture and head of research and development. Mr. Bogue received 28,500,000 common shares valued at \$299,250 under this agreement. In addition, on February 10, 2012, Mr. Bogue signed a management bonus agreement where he received 5,000,000 common shares valued at \$185,000 as a signing bonus for entering into his management agreement.

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On February 9, 2012, the Company acquired GGECO University, Inc. ( GGECO ), an online video-based medical cannabis education system, offering courses dealing with medical cannabis law, the benefits of medical marijuana, cooking, horticulture, and bud tending. Following the university's name change to Cannabis Science University, the Company hopes to use this platform to educate the general public, patients, and even those who have already been involved in the medical cannabis industry on the medical benefits of cannabis, how it is grown, how to use it safely, and the many applications or ways to administer the medication. In consideration of this agreement, the Company issued 25,000,000 common shares to the principals of GGECO, valued at \$925,000.

On March 13, 2012, the Company issued 28,500,000 common shares for settlement of \$28,500 of stockholder debt, for a loss on settlement of \$3,262,500, assigned from the stockholder notes payable originating on August 16, 2010, September 14, 2010, September 17, 2010, October 7, 2010 and June 30, 2011 and owing at December 31, 2011.

On March 21, 2012, the Company acquired Cannabis Consulting Inc. ( CCI Group ), which consists of a group of businesses operated by Robert J. Kane, including: all contracted rights, properties, patents, trademarks, and distribution rights and agreements pertaining to Cannabis Consulting Inc., Robert Kane Partners, Kaneabis Consulting, Kaneabis Fund, Kaneabis Report, and Kaneabis Radio. In conjunction with the acquisitions, Robert Kane was promoted to V.P. of Investor Relations for the Company. Consideration paid for the CCI Group was 1,000,000 common shares to be issued to the principal, Mr. Robert Kane. He also received 250,000 free trading shares.

On March 22, 2012, the Company issued 250,000 common shares with a fair market value of \$12,500 to a member of the Company's scientific advisory board for services rendered.

A stockholder of the Company, Intrinsic Capital Corp., loaned the following monies to Cannabis Science:

\$20,000 on January 27, 2012

\$10,000 on January 30, 2012

\$51,748 on February 24, 2012

\$5,000 on March 2, 2012

\$25,000 on March 14, 2012

\$30,000 on March 29, 2012

\$15,000 on April 2, 2012

\$25,000 on April 4, 2012

; for total loan proceeds of \$181,748.

Subsequent events have been reviewed and included for presentation herein up to and including April 16, 2012.

Appropriate Form 8-K information will be filed after management has determined what information will be required.

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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 period ended December 31, 2011, our Chief Executive and Chief Financial Officer as of December 31, 2011 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.

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

In order to remedy our existing internal control deficiencies, as our finances allow, we will hire additional accounting staff.

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, 2011. Based on its evaluation, our management concluded that, as of December 31, 2011, 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, 2011, our officers and directors were as follows:

NAME
AGE
OFFICE
SINCE
Dr. Robert Melamede
64
President & CEO
2009
Richard Cowan
72
CFO, Director and Secretary
2009

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 March 30, 2009 the Company announced it acquired the assets of Cannex Therapeutics, LLC., a California based privately held company in the forefront of the development of medical cannabis based pharmaceutical products. The asset purchase agreement includes all intellectual property rights, formulas, patents, trademarks, client base, hardware and software pertaining to Cannex's pharmaceutical cannabis research & development business. Along with the Cannex asset purchase the Company appointed Steve W. Kubby as President & CEO, Richard Cowan as Director & CFO, and Robert Melamede Ph. D., as Director & Chief Science Officer.

Dr. Robert Melamede has a Ph.D. in Molecular Biology and Biochemistry from the City University of New York. Dr. Melamede retired as Chairman of the Biology Department at University of Colorado, Colorado Springs in 2005, where he continues to teach and research cannabinoids, cancer, and DNA repair. Dr. Melamede is recognized as a leading authority on the therapeutic uses of cannabis, and has authored or co-authored dozens of papers on a wide variety of scientific subjects. Dr. Melamede also serves on the Editorial Board of The Journal of the International Association for Cannabis as Medicine, the Scientific Advisory Board of Americans for Safe Access, Sensible Colorado, Scientific Advisor for Cannabis Therapeutics as well as a variety other of state dispensaries and marijuana patient advocacy groups

Mr. Richard Cowan has a Bachelor of Arts in Economics from Yale University. He has served on the board of several public companies as a specialist in mergers and acquisitions with a focus on corporate finance. Mr. Cowan is a former CEO of the National Organization for the Reform of Marijuana Laws (NORML). Mr. Cowan has broad knowledge of the medical cannabis world in USA, Canada, and Europe.

We have no audit committee. We have a compensation committee that administers our 2006 Employee Stock Option Plan that we adopted in April 2006.

## **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.

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, 2006, all 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. 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 fiscal 2011, the Company accrued a total of \$750,000 in executive compensation, consisting of \$0 in salary, and \$750,000 in management fees. The table below shows the compensation split:

Cash compensation

Stock issuances

Total Compensation

Dr. Robert Melamede

\$

250,000

\$

-

\$

250,000

Raymond Dabney

250,000

250,000

Richard Cowan

250,000

-

250,000

\$

750,000

\$

-

\$

750,000

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## Employment Agreements

Currently, the Company has management agreements with its two executives and a managing partner.

## 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.

We have no 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

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Bogat Family Trust

#503 - 1155 Robson St. Vancouver, BC V6E 1B5, Canada

Dr. Robert Melamede <sup>(1)</sup>

1918 El Parque St. Apt 4, Colorado Springs, CO 80907-6798

Richard Cowan <sup>(1)</sup>

Haarlemmerstraat 86, Amsterdam, Netherlands 1013EV

ALL DIRECTORS AND

EXECUTIVE OFFICERS

NUMBER OF SHARES

OWNED BENEFICIALLY

---

9,090,000

8,507,000

8,507,000

17,014,000

PERCENT

OF SHARES OWNED

---



2.97%

2.78%

2.78%

8.35%

<sup>(1)</sup> 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:

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

**(1) AUDIT FEES**

The aggregate fees billed for professional services rendered 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 2011 was \$\_\_\_\_\_ and in 2010 was \$51,500.

**(2) AUDIT-RELATED FEES**

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

**(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.

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## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits filed with report:

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

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

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

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

99.1 Pro Forma Combined Financial Statements for GGECO University, Inc.

EX-101.INS XBRL INSTANCE DOCUMENT EX-101.SCH XBRL TAXONOMY EXTENSION  
SCHEMA EX-101.CAL XBRL TAXONOMY EXTENSION CALCULATION

LINKBASE EX-101.LAB XBRL TAXONOMY EXTENSION LABEL LINKBASE EX-101.PRE XBRL  
TAXONOMY EXTENSION PRESENTATION LINKBASE EX-101.DEF XBRL TAXONOMY EXTENSION  
DEFINITION LINKBASE

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

**Cannabis Science, Inc.**

By: /s/ Dr. Robert Melamede

Date: April 16, 2012

Dr. Robert Melamede President, Chief Executive Officer Director

Pursuant to the requirements of the Exchange Act 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**

/s/ Dr. Robert Melamede

President, Chief Executive

April 16, 2012

Dr. Robert Melamede

Officer, Director

/s/ Richard Cowan

Chief Financial Officer

April 16, 2012

Richard Cowan

Director