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CANNABIS SCIENCE, INC.

Form 10-Q

November 19, 2009

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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

☐ TRANSITION REPORT UNDER SECTION 13 OF 15(d) OF THE EXCHANGE ACT OF 1934

From the transition period from _____ to _____.

Commission File Number 000-28911

CANNABIS SCIENCE, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

91-1869677

(State or other jurisdiction of incorporation or
organization)

(IRS Employer Identification No.)

6946 N Academy Blvd, Suite B #254

Colorado Springs CO 80918

(Address of principal executive offices)

(888) 889-0888

(Issuer's telephone number)

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

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

Indicate by check mark whether the registrant has
submitted electronically and posted on its corporate
Web site, if any, every interactive Data File required
to be submitted and posted pursuant to Rule 405 of

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Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ☐ No ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large Accelerated Filer ☐

Accelerated Filer ☐

Non-Accelerated Filer ☐.

Smaller Reporting Company ☒

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

As of November 16, 2009, there were 25,747,279 shares of Common Stock of the issuer outstanding.

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CANNABIS SCIENCE, INC.
(A Development Stage Company)
Consolidated Balance Sheets

		September 30, 2009 (Unaudited)	December 31 2008 (Audited)
Assets			
Current Assets:			
Cash	\$	5,679	580
Prepaid expenses		5,420	-
Due from Affiliate		-	3,031
Total Current Assets		11,099	3,611
Property and equipment (Note 3)		4,223	1,567
Intellectual Property (Note 11)		524,000	-
Total Assets	\$	539,322	5,178

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Liabilities and Shareholders' Deficit

Current Liabilities:

Accounts Payable	\$	412,780	359,179
Accrued Expenses		161,914	45,415
Accrued Interest Payable to Affiliate		195,323	136,346
Loan Payable to Affiliate (Note 5)		814,742	814,742
Line-of-Credit to Affiliate		45,438	-
Total Liabilities		1,630,197	1,355,682

Commitments and Contingencies (Note 8)

Shareholders' Deficit

Series A preferred stock, \$.001 par value, 1,000,000 authorized, Issued and outstanding: 999,999 shares (2008 - Nil)		1,000	-
Common Stock, \$.001 par value, 30,000,000 shares authorized, Issued and Outstanding: 25,747,279 shares (2008 - 12,597,279)		25,747	12,597
Common Stock Subscribed and Paid, but not yet Issued		110	-
Additional Paid in Capital	51,157,023		48,148,783
Accumulated Deficit	(52,274,755)		(49,511,884)
Total Shareholders' Deficit	(1,090,875)		(1,350,504)
Total Liabilities and Shareholders' Deficit	\$	539,322	5,178

See accompanying summary of accounting policies and notes to consolidated financial statements.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Statements of Operations

For the Three and Nine Months Ended September 30, 2009 and 2008

And For the Period from January 27, 2005 (inception) to September 30, 2009

(Unaudited)

					Period from Jan. 2005 (Inception) to Sept.30, 2009
		Nine months ended September 30, 2009		Three months ended September 30, 2009	
OIL & GAS OPERATIONS:					
Oil & Gas Revenues	\$	-	447,412	-	285,853
Lease Operating					459,652

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Expenses	-	226,895	-	132,718	230,164

Gross Profit	-	220,517	-	153,135	229,488
OTHER EXPENSES:					
New Product Development	458,400	-	-	-	458,400
Professional Fees	1,872,677	130,112	879,213	39,752	33,063,639
Technology License					
Royalties	-	-	-	-	160,417
Impairment of Oil & Gas Leases	-	2,400,000	-	-	7,486,000
Net Gain on Settlement of Liabilities	-	(6,285,651)	-	-	(5,935,451)
General and Administrative	372,800	228,866	51,022	137,698	16,161,155

Total Operating Expenses	2,703,877	(3,526,673)	930,235	177,450	51,394,160

OPERATING INCOME (LOSS)	(2,703,877)	3,747,190	(930,235)	(24,315)	(51,164,672)
Other Income (Expense):					
Other Income	88	1,439	88	1,439	88
Beneficial Conversion Feature	-	(32,335)	-	-	(1,098,992)
Gain on Settlement of Debt	-	-	-	-	117,950
Other expense	-	(107,091)	-	(107,091)	-
Interest Expense	(59,082)	(83,757)	(19,764)	(79,634)	(129,129)

Total Other Income (Expense)	(58,994)	(221,744)	(19,676)	(185,286)	(1,110,083)

NET INCOME (LOSS) \$	(2,762,871)	3,525,446	(949,911)	(209,601)	(52,274,755)
Basic Earnings per Share					
	\$	(0.16)	0.60	(0.04)	(0.02)
Basic and Diluted Earnings per Share					
	\$	(0.16)	0.60	(0.04)	(0.02)
Weighted Average Shares Outstanding: Basic					
	16,750,000	5,878,173	22,366,000	9,877,895	
Weighted Average Shares Outstanding: Diluted					
	16,750,000	5,896,173	22,366,000	9,877,895	

See accompanying summary of accounting policies and notes to consolidated financial statements.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Statements of Shareholders' Deficit

For the Nine Months Ended September 30, 2009 and

The Period from January 27, 2005 (inception) to September 30, 2009

(Unaudited)

	Common Shares	Stock Par	Additional Paid-in Capital	Prepaid Consulting	Deficit Accum. During The Development Stage	Totals
Bal at Jan 27, 2005 (inception) \$	-	-	-	-	-	-
Founder's Stock Issued	83,800	84	(84)	-	-	-
Shares 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)
Bal at Dec 31, 2005	191,828	192	744,148	-	(807,600)	(63,260)
Shares Issued for Employment	45,500	45	8,487,455	-	-	8,487,500
Shares Issued for 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)
Bal at Dec 31, 2006	415,178	415	38,436,125	(7,633,750)	(38,064,384)	(7,261,594)
Shares Issued For Services	63,021	63	528,285	(387,500)	-	140,848
Shares Issued for Debt Conversion	350,000	350	349,650	-	-	350,000

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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)
Bal at Dec 31, 2007	1,328,198	1,328	45,380,217	(53,071,501)	(7,689,956)
Amortization of Beneficial Conversion Feature			32,335		32,335
Cancellation and Amortization of Shares	(919)	(1)	1		
Issuance of Shares for Cash	10,000	10	19,990		20,000
Shares Issued for Debt Conversion	990,000	990	98,010		99,000
Purchase of Subsidiary with Stock	10,000,000	10,000	2,490,00		2,500,000
Issuance of Stock for Services	270,000	270	128,230		128,500
Net Income				3,559,617	3,559,617
Bal at Dec 31, 2008	12,597,279	12,597	48,148,783	- (49,511,884)	(1,350,504)
	Common Stock		Preferred Stock		Additional
	Shares	Par	Shares	Par	Paid-in Capital
Bal at Dec 31, 2008	12,597,279	12,597			48,148,783
Issuance of Shares for Assets	2,150,000	2,150			522,850
Issuance of common stock for cash	2,155,000	2,155			132,095
Issuance of preferred stock for services			999,999	1,000	
Cancellation of common stock previously issued	(10,000)	(10)			10
Issuance of common stock for services	8,855,000	8,855			2,340,695
Common stock subscribed					12,590
Net Loss					

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Bal at Sept.30, 2009	25,747,279	25,747	999,999	1,000	51,157,023
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	Prepaid Consulting	Common Stock Subscribed	Deficit Accumulated During the Development Stage	Totals
Bal at Dec 31, 2008	-	-	(49,511,884)	(1,350,504)
Issuance of Shares for Assets	-	-	-	525,000
Issuance of common stock for cash	-	-	-	134,250
Issuance of preferred stock for services	-	-	-	1,000
Cancellation of common stock previously issued	-	-	-	-
Issuance of common stock for services	-	-	-	2,349,550
Common stock subscribed	-	110	-	12,700
Net Loss			(2,762,871)	(2,762,871)

Bal at Sept.30, 2009	-	110	(52,274,755)	(1,090,875)

See accompanying summary of accounting policies and notes to consolidated financial statements.

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CANNABIS SCIENCE, INC.

(A Development Stage Company)

Consolidated Statements of Cash Flows

For the Nine Month Periods Ended September 30, 2009 and 2008

And the Cumulative Period from January 27, 2005 (inception) to

September 30, 2009

(Unaudited)

	Period from January 27, 2005 (inception) to September 30, 2009		Nine Months Ended September 30, 2009		2008
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CASH FLOWS FROM OPERATING ACTIVITIES

Net Income (Loss)	\$	(2,762,871)	3,525,44	(52,274,755)
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Adjustments to reconcile

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net income (loss) to cash			
(used in) operating activities:			
Depreciation and Depletion	300	2,238	15,815
Impairment Expense	-	-	7,576,667
Amortization Expense	-	32,335	9,120,242
Stock Issued for Services	2,350,550	-	32,493,848
Stock to be Issued	-	-	120,500
Change in assets and liabilities:			
Increase (Decrease) in Inventory	-	-	(29,102)
Increase (Decrease) in Shares			
to be Issued	-	(4,879,500)	-
(Increase) Decrease in			
Accounts Receivable	-	(81,962)	(2,087)
(Increase) Decrease in			
Other Assets	(5,420)	(81,256)	(5,420)
Increase (Decrease) in			
Other Liabilities	58,977	53,615	195,324
Increase (Decrease) in			
Accounts Payable	53,601	35,778	1,548,565
Increase (Decrease) in			
Accrued Expenses	116,499	(1,284,331)	(892,142)
CASH FLOWS (USED IN) OPERATING			
ACTIVITIES	(188,364)	(2,677,637)	(2,132,545)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Oil and Gas Lease	-	-	(30,000)
Purchase of Property and Equipment	(1,956)	(16,472)	(44,846)
CASH FLOWS USED IN			
INVESTING ACTIVITIES	(1,956)	(16,472)	(74,846)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the Sale			
of Common Stock	134,250	-	154,250
Proceeds from Convertible			
Note - Related Party	-	99,000	1,050,342
Stock Issued for Oil and Gas Lease	-	2,400,000	-
Proceeds from Sale of Common			
Stock Subscriptions	12,700	-	12,700
Advances from Related Party	45,438	20,000	45,438
Repayments to Related Party	-	(77,444)	(61,688)
Loan Payable to Affiliates	3,031	248,856	1,012,028
CASH FLOWS PROVIDED BY			
FINANCING ACTIVITIES	195,419	2,690,412	2,213,070
NET INCREASE (DECREASE) IN CASH	5,099	(3,679)	5,679
Cash, beginning of period	580	4,769	-
Cash, end of period	\$ 5,679	1,072	5,679
SUPPLEMENTAL CASH FLOW INFORMATION			
Issuance of common stock			
for services	\$ 2,349,550	-	11,986,430
Issuance of common stock			
for assets	525,000	-	525,000

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Issuance of preferred stock for services	1,000	-	1,000
Related party note payable	-	-	250,000
Net liabilities assumed with recapitalization	-	-	200,000
Divestiture of subsidiary to related party	-	-	200,000
Issuance of common stock for debt	-	99,000	1,100,000
Issuance of common stock for oil & gas leases	-	2,500,000	907,200

See accompanying summary of accounting policies and notes to consolidated financial statements.

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CANNABIS SCIENCE, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2009

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Organization and 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

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merger, and recapitalization. In addition, the Company changed its accounting year-end from September 30 to December 31, which was Es3's accounting year-end. The Company then commenced business manufacturing and marketing products under the name Special Stone Surfaces. The Company sold its shares in Es3 in October 2005, and thereafter conducted no substantial business until 2006,

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

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

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

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Line of Credit Agreement with South Beach that created unsustainable working capital pressure.

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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. The Company and its largest shareholder, K & D Equities, Inc., exchanged a total of 10,600,000 shares of common stock for the assets of Cannex; the Company issued 2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed. Please see Note 10.

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

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shares now trade under the symbol CBIS.OB. A Form 8-K was timely filed, with a copy of the Asset Acquisition Agreement and Board Resolution ratifying the Agreement provided as exhibits thereto.

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

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

Unaudited Interim Financial Statements:

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States and applicable Securities and Exchange Commission ("SEC") regulations for interim financial information. These financial statements for the interim periods in 2009 and 2008 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) necessary to present fairly the balance sheets, statements of operations, equity and statements of cash flows for the periods presented in accordance with accounting principles generally accepted in the United States. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to SEC rules and regulations. It is presumed that users of this interim financial information have read or have access to the audited financial statements and footnote disclosure for the preceding fiscal year contained in the Company's Annual Report on Form 10-K. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

Significant Accounting Policies:

The Company's management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense. It is also necessary for management to determine, measure and allocate resources and obligations within the financial process according to those principles. The accounting policies used conform to generally accepted accounting principles which have been consistently applied in the preparation of these financial statements.

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The financial statements and notes are representations of the Company's management which is responsible for their integrity and objectivity. Management further acknowledges that it is solely responsible for adopting sound accounting practices, establishing and maintaining a system of internal accounting control and preventing and detecting fraud. The Company's system of internal accounting control is designed to assure, among other items, that 1) recorded transactions are valid; 2) valid transactions are recorded; and 3) transactions are recorded in the proper period in a timely manner to produce financial statements which present fairly the financial condition, results of operations and cash flows of the Company for the respective periods being presented.

Basis of Presentation:

The Company prepares its financial statements on the accrual basis of accounting. All intercompany balances and transactions are eliminated. During a portion of 2008, the financial statements included the accounts of Curado Energy Resources, Inc.

In preparing the accompanying unaudited consolidated financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after September 30, 2009, up until the issuance of the consolidated financial statements, which occurred on November 16, 2009.

Reclassification:

Certain prior year amounts have been reclassified in the consolidated balance sheets, consolidated statements of operations and consolidated

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statements of cash flows to conform to current period presentation. These reclassifications were not material to the consolidated financial statements and had no effect on net earnings reported for any period.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Recently Issued Accounting Pronouncements:

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's consolidated results of operations, financial position or cash flow.

Cash and Cash Equivalents:

Cash and cash equivalents includes cash in banks with original maturities of three months or less and are stated at cost which approximates market value, which in the opinion of management, are subject to an insignificant risk of loss in value.

Long Lived Assets:

Under ASC 205.2, "Accounting for the Impairment or Disposal of Long-Lived Assets", the Company is required to periodically evaluate the carrying value of long-lived assets to be held and used. ASC 205.2 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.

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During the year ended December 31, 2007, 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 500,000 shares. The

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lease was valued at the fair market value of the shares which was \$5,000,000.

As of December 31, 2007, 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, 2007. The Company recorded an impairment loss of \$5,030,000 for the year ended December 31, 2007.

In June 2008 the Company acquired eleven oil well leases in a related party transaction with the majority shareholder, 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 is \$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 2007, 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 2007, 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 2007, financial statements will reflect 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.

Fair Value of Financial Instruments:

Under ASC 820, the Company discloses the estimated fair values of financial instruments. The carrying amounts reported in the consolidated balance sheet for current assets and current

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liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Stock-Based Compensation:

Under ASC 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 consolidated statements of operations. The Company has adopted ASC 718 (SFAS 123R) as of January 1, 2006 and will recognize stock-based compensation expense using the modified prospective method.

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Income Taxes:

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

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

Property and Equipment:

Property and equipment are stated at cost less accumulated depreciation. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation is computed by applying the straight-line method over the estimated useful lives which are generally five to seven years.

Earnings per Share (Loss):

Under ASC 260, "Earnings Per Share" ("EPS"), the

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Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the three month period ended September 30, 2009, basic and diluted earnings per share is the same (\$0.00) since the calculation of diluted per share amounts would result in an anti-dilutive calculation. For the three month period ended September 30, 2009, basic and diluted loss per share are \$.04. For the nine month period ended September 30, 2009, basic and diluted loss per share are \$.16.

Comprehensive Income:

Under ASC 220, "Comprehensive Income", the Company is required to report and display its comprehensive income and components in a full set of general purpose financial statements. For the quarters ended September 30, 2009 and 2008, the Company had no items of other comprehensive income. Therefore, the net loss equals the comprehensive loss for the periods then ended.

NOTE 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 a cumulative deficit of \$52,274,755 and had a stockholders' deficit of \$1,090,875 at September 30, 2009. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and Financial Statements and notes thereto included in the Company's December 31, 2008 Form 10-K.

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NOTE 3 - FIXED ASSETS

Fixed assets at September 30, 2009 and December 31, 2008 are as follows:

		September 30, 2009	December 31, 2008
Equipment	\$	4,956	2,000
Less: Accumulated Depreciation		(733)	(433)
		-----	-----
Total Fixed Assets	\$	4,223	1,567

Depreciation expense for the three month periods ended September 30, 2009 and 2008 was \$100 and \$100 respectively.

The Company acquired Cannex's website, which has an estimated value of \$1,000 based on the original cost of the asset.

NOTE 4 - INCOME TAXES

Under ASC 740 ("Income Taxes"), the Company is required to recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The following table sets forth the significant components of the net deferred tax assets as of September 30, 2009:

		September 30, 2009	December 31, 2008
Net operating loss carry forward	\$	52,273,755	49,511,884
Total deferred tax assets		17,364,834	16,440,389
Less: valuation allowance		(17,364,834)	(16,440,389)
Net deferred tax assets	\$	-	-

NOTE 5 - LOAN FROM AFFILIATE

On January 11, 2007 the Company entered into an agreement with Camden Holdings, Inc., also an affiliate of the Company, wherein the Company memorialized its obligation to pay Camden Holdings, Inc \$650,000 by December 31, 2007 for monies owed to Camden. The Company also gave Camden the right to convert all or part of this debt into shares of the Company's common stock at \$.01 per share. The Company recorded a beneficial conversion of \$650,000 on the note which is being amortized over the life of the note. During the three month period

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ended March 31, 2007, the Company amortized \$162,500 of this unamortized discount as interest expense. The Company recorded an interest payable of \$58,977 for the nine month period ended September 30, 2009.

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On March 25, 2009, Summitt Oil & Gas, Inc. and Melissa 364 CR, Ltd. entered into a purchase and sale agreement by which Summitt assigned its rights with respect to debt of \$814,742 plus accrued interest, and sold 400,000 shares of restricted stock.

NOTE 6 - EQUITY TRANSACTIONS

The Company is authorized to issue 30,000,000 shares of common shares with a par value of \$.001 per share. These shares have full voting rights. There were 25,747,279 and 12,597,279 issued and outstanding as of September 30, 2009 and December 31, 2008.

The Company is also authorized to issue 1,000,000 shares of preferred stock. A certificate designating 1,000,000 Series A preferred shares and assigning rights was filed with the State of Nevada. As of September 30, 2009, 999,999 shares were issued and outstanding. The issuances, valued at \$1,000, were made in consideration of services provided to the Company. Each Series A preferred share entitles the holder to 1,000 votes, has \$.001 par value, and is not convertible into common stock of the Company.

A.Issuance of Common Stock

On June 6, 2008, the Company entered into an Asset Purchase Agreement (the "Agreement") with K&D Equity Investments, Inc., a Texas corporation ("K&D"). Under the terms of the Agreement, the Company acquired, through Curado Energy Resources, Inc., working interests in ten (10) oil, gas and mineral leases (the "Leases") located in Texas, with Net Revenue Interests (N.R.I.) in these leases ranging from 75% to 84.76%. Gulf paid K&D 10,000,000 shares of its \$.001 par value common stock for the Leases. K&D was the owner of 500,000 shares of the Company's common stock and became its largest single shareholder, owning approximately 88% of the Company's issued and outstanding shares.

On June 13, 2008, the Company issued 500,000 shares of its \$.001 par value common stock to South Beach Live, Inc., a Florida corporation, pursuant to the

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terms of an October 4, 2007, Promissory Note. Under the terms of the Note, the Company was released from \$50,000 of the principal obligation under the Note in exchange for issuance of these shares. Provisions of the Note are fully disclosed in the Company's Form 10-KSB, filed on April 10, 2008.

On March 30, 2009, the Company entered into an agreement with Cannex Therapeutics, LLC, 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 included all of Cannex' and Kubby's intellectual property rights, formulas, patents, trademarks, client base, hardware and software, including the website www.phytiva.com. The Company and its largest shareholder, K & D Equity Investments, Inc., paid 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.

On May 28, 2009, the Board of Directors of the Company authorized and approved adoption of a 2009 Stock Compensation Plan. The plan is authorized to issue 6,500,000 common shares. The purposes of this Plan are to (i) attract and retain the best available personnel for positions of responsibility within the Company (ii) provide incentives to employees, officers, and management of the Company, (iii) provide Directors, Consultants and Advisors of the Company with an opportunity to acquire a proprietary interest in the Company to encourage their continued provision of services to the Company, and to provide such persons with incentives and rewards for superior performance more directly linked to the profitability of the Company's business and increases in shareholder value, and (iv) generally to promote the success of the Company's business and the interests of the Company and all of its stockholders, through the issuance of shares of the Company's Common Stock. The Company has issued 6,480,000 common shares under the terms of the plan to advisors and consultants of the Company.

On June 11, 15, and 18th of 2009, the Company issued a total of 975,000, section 144-restricted, common shares for investor relations services. The shares carry section 144-restrictive legends.

B.Warrants

No warrants were granted during the nine-month period ended September 30, 2009.

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The weighted average remaining contractual life of warrants outstanding is 0.25 years at September 30, 2009.

Outstanding Warrants		Average Remaining Contractual Life	Exercisable Warrants	
Range of Exercise Price	Number		Average Intrinsic Value	Number
\$67.00	18,000	0.25	-	18,000

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The current Exercise Price of \$67.00 per share reflects the impact of the two 1:10 stock splits. Prior to the splits the Exercise price was \$0.67 per share.

The Company estimated the fair value of each stock warrant at the grant date by using the Black-Scholes option-pricing mode.

The weighted-average assumptions used in estimating the fair value of warrants outstanding as of September 30, 2009, along with the weighted-average grant date fair values, were as follows.

	2009
Expected volatility	80.0%
Expected life in years	5 years
Risk free interest rate	5.07%
Dividend yield	0%

C. 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 25,000,000 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 September 30, 2009, no options to purchase the Company's common stock have been granted under the Plan. There were no options outstanding at September 30, 2009.

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 2008 and 2009 no additional shares have been issued.

On May 28, 2009 the Board of Directors of the Company authorized and approved adoption of a 2009 Stock Compensation Plan. The plan is authorized to issue 6,500,000 common shares. The purposes of this Plan are to (i) attract and retain the best available personnel for positions of responsibility within the Company (ii) provide incentives to employees, officers, and management of the Company, (iii) provide Directors, Consultants and Advisors of the Company with an opportunity to acquire a proprietary interest in the Company to encourage their continued provision of services to the Company, and to provide such persons with incentives and rewards for superior performance more directly linked to the profitability of the Company's business and increases in shareholder value, and (iv) generally to promote the success of the Company's business and the interests of the Company and all of its stockholders, through the issuance of shares of the Company's Common Stock. The Company has issued 6,480,000 common shares under the terms of the plan to advisors and consultants of the Company.

NOTE 7 - RELATED PARTY

On June 6, 2008, the Company entered into an Asset Purchase Agreement (the "Agreement") with K&D Equity Investments, Inc., a Texas corporation ("K&D"). Under the terms of the Agreement, the Company acquired, through Curado Energy Resources, Inc., working interests in ten (10) oil, gas and mineral leases (the "Leases") located in Texas, with Net Revenue Interests (N.R.I.) in these leases ranging from 75% to 84.76%. Gulf paid K&D 10,000,000 shares of its \$.001 par value common stock for the Leases. K&D was the owner of 500,000 shares of the Company's common stock, and as a result of the Agreement owned approximately 88% of the Company's issued and outstanding shares. K & D's president, Jeffrey Joyce, was an officer of the Company at the time of the transaction.

On June 6, 2008, the Company entered into 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 has agreed to issue South Beach a promissory note for \$250,000, payable in 1 year at 10% interest. The Company will close the SPA at the same time it closes the Agreement. The Fair Market Value ("FMV") of the net assets of Curado at the time of the transaction was \$157,040. This generated an amount of Goodwill of \$92,960 which is reflected in the consolidated financial statements. At the time of the transaction, Michele Sheriff, who was a director and Secretary of the Company, was also an officer and the sole director of South Beach.

In October 2008, the Company and SBL entered into an Accord and Satisfaction Agreement. Under the terms of the Agreement, South Beach released the Company from any further obligation under the parties' \$250,000 Promissory Note in exchange for an assignment of the Company's interest in a (currently) non-producing oil well, the Putnam M, located in Throckmorton Co., Texas, and a surrender of any claim to shares of Curado Energy Resources, Inc., the Company's wholly-owned subsidiary, currently held by South Beach under a Security Agreement. The Company is advised that South Beach has exercised its rights to these shares and requested re-registration thereof.

On March 25, 2009 Summitt Oil & Gas, Inc. and Melissa 364 CR, Ltd. entered into a purchase and sale agreement under which 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 to Melissa. 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. South Beach Live is the General Partner of Melissa.

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

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Cannex and others.

NOTE 8 - COMMITMENTS AND CONTINGENCIES

A. Legal

The Company is periodically involved in legal actions and claims that arise as a result of events that occur in the normal course of operations. 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 consolidated financial position or results of operations. (See Note 12)

B. Operating Leases

The Company has a transitional corporate address at 6946 N Academy Blvd, Suite B #254 Colorado Springs CO 80918. This address is being used while the Company completes negotiations for the corporate headquarters and research lab of choice, in Colorado Springs, CO.

C. Liabilities

The Company had a collection notice for \$87,183 related to legal billings in 2006 that had not been booked. The amount was recorded in the third quarter of 2007. The billings were related to acquisition work that was never completed. The Company contends that the agreement was not with Cannabis Science Inc. but with a potential acquirer and therefore believes that the accrual is not necessary.

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On December 19, 2006, Empire Relations Group Inc. ("Empire") filed an arbitration claim against the Company in connection with a consulting agreement entered into by and between the Company and Empire on September 28, 2006. An arbitration award in the amount of \$13,000 was issued against the Company on March 9, 2007, which also provided for interest at the rate of nine percent per annum, commencing 30 days after the date of the award and continuing until paid in full. The amount has been accrued in the accompanying financials.

Included in "Accounts payable" on the consolidated balance sheet at September 30, 2009 and December 31, 2008, the Company has payables totaling \$250,000 to two former directors and one attorney that were incurred in 2006 and 2005, respectively.

The attorney represented a former related party when it was in

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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 will pursue a legal opinion in 2009 to reverse the liability.

The former directors were awarded severance agreements in June 2006 shortly before resigning from the Company. The severance and other fees totaled \$81,250 for each director for a total of \$162,500. The severance was not immediately paid and there has been no correspondence concerning payment since they resigned. The states statute of limitations expires in June 2010 and the Company, at that time, will accordingly adjust the liabilities to \$0 if no demand is received.

Included in "Accounts payable" on the consolidated balance sheet at September 30, 2009 and December 31, 2008, the Company also has payables totaling \$70,000 to various vendors incurred in 2005 through 2007.

There is \$30,000 balance to a former related party that has not been resolved. This liability was incurred in 2005 and there has been no correspondence with the vendor since the signing of the contract and unless the vendor contacts the Company, we will accordingly adjust the liability to \$0 in compliance with the state statutes of limitations of four years, in October of 2009.

There is \$12,175 to a former consultant that is unresolved. This liability was incurred in 2005 and there has been no correspondence with the vendor since the liability was incurred. In the event the vendor does not contact the Company, we will accordingly adjust the liability to \$0 in compliance with the state statutes of limitations of four years, in December of 2009.

There is approximately \$28,000 of other smaller and aged payables that

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the Company will also write-off in future periods using the applicable statute of limitations as a guide.

NOTE 9 - EXTINGUISHMENT OF DEBT

On March 21, 2008 the Board of Directors determined that it was in the best interest of the Company and its shareholders to void the contracts of two former directors and extinguish the associated liability and related accrued payroll taxes. The contracts originated in 2006 and called for the issuance of restricted common stock in the amount of \$5,000,000. During 2006 a liability for \$5,000,000 and \$1,285,651 of related accrued payroll taxes was recorded. Accordingly, during the nine months ended September 30, 2009, management has recorded a nonrecurring gain in the amount of \$6,285,651 relating to the extinguishment of the aforementioned liabilities.

NOTE 10 - ASSET VALUATION

On March 30, 2009, the Company entered into an agreement with Cannex Therapeutics, LLC, a California limited liability company, and its principal, to acquire all of their interest in certain assets used to conduct a cannabis research and development business. The asset appraisal to determine the value to be assigned to the assets included in the transaction is planned to be conducted by the end of the first quarter of 2010 and therefore will require amended disclosure pertaining to the assets of the Company. The transaction, where 2,100,000 shares were exchanged by the Company, was valued at \$525,000 based on the price of the stock on March 30, 2009.

NOTE 11 - INTELLECTUAL PROPERTY

Intellectual property ("IP") of \$524,000 is a result of the transaction referenced in both Note 3 and Note 10 with Cannex Therapeutics, LLC, ("Cannex"). Identified and estimated assets at the time of this filing was \$1,000 for the Company website and the balance was allocated to goodwill. Once the asset valuation referenced in Note 10 is completed it is more than likely that this balance will be adjusted.

NOTE 12 --SUBSEQUENT EVENTS

On November 11, 2009, the Company signed a Settlement Agreement with K & D Equity Investments, Inc. ("K & D"), which settled the legal claim K & D made against the Company for breach of the non-dilution provision of the Asset Purchase Agreement that provided additional shares to K & D in the event the Company sold shares below the price of \$1.00 per share in the twelve month period subsequent to the signing of the Asset Purchase Agreement. Under the terms of the Settlement Agreement (filed as an exhibit to this 10-Q), the Company issued 900,000 shares of common stock

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valued at \$468,000 based on the average closing price of its stock on November 11, 2009.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

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. 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 Q4 of 2008, the Company terminated all its oil and gas operations and relinquished all its rights to oil and gas leases and working interests in oil and gas wells in exchange for a release of debt. 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 shareholders 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

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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.

On April 27, 2009 Cannabis Science Inc. Reports on Prospective Life Saving Treatments for H1N1 Swine Flu and H5N1 Bird Flu in View of the Current Global Threat. The Company's non-toxic lozenge has properties that could alleviate many of the symptoms and harmful effects of the H5N1 bird flu and H1N1 swine flu viruses.

On June 9, 2009 the Company announces it has received U.S. Federal Government CAGE/NCAGE Code Certification; CAGE/NCAGE Code: 5FZM9 was obtained through Central Contracting Registration (CCR). The CCR is the primary vendor database for the U.S. Federal Government and is used as a government tool for the Department of Homeland Security, Department of Defense, NATO and NASA Agencies. Specifically the Company received U.S. Federal Government Classification for North American Industry Classification System (NAICS) 541711 - Research and Development in Biotechnology, 621511 - Medical Laboratories, 624230 - Emergency and Other Relief Services. The Company has also received U.S. Government Classification for Standard Industrial Classification (SIC) for 8731 - Commercial Physical and Biological Research, enabling it to receive government notifications and requests for services under these classifications. With the Special Board Resolution held on July 9, 2009 it was resolved with the majority of the board of directors calling to immediately remove and terminate all corporate officer contracts with its President and CEO, Mr. Steven W. Kubby, who had failed to conduct his duty in the manner that is in compliance with his fiduciary duties to preserve shareholders value and corporate integrity. It has resolved that Dr. Robert Melamede remains as a Director and has been appointed to the positions of President, CEO and Secretary effective immediately and continue the term until the next annual general meeting. With the Special Board Meeting held on July 10, 2009, the Board has received and has accepted the resignation of Steven W. Kubby as a member of the Board of Directors. July 20, 2009 the Company announced it is moving forward with its preparations for a pre-IND meeting with the FDA, which will provide guidance on the manufacturing, non-clinical, and clinical development program for

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Cannabis Science Drugs. As well the Company reports intentions to move corporate headquarters to Colorado Springs, Colorado. The Company has since moved its Corporate Headquarters to Colorado Springs, CO.

The Company, on July 27, 2009, announced intentions to apply to the FDA to utilize their Fast Track Procedures to help speed the approval of its Cannabinoid medicines in treatment of H1N1 Swine Flu. In conjunction with its recent re-organization, the company has begun discussions with the FDA as its program moves forward to provide FDA approved solutions for several critical illnesses. On August 6, 2009 the Company announced the creation of a Scientific Advisory Board and that Dr. Mitch Earleywine has accepted its invitation to become the first member of its newly formed Scientific Advisory Board. Dr. Earleywine is an Associate Professor of Psychology at the State University of New York (SUNY) at Albany. He has received numerous awards for his excellence in teaching and research. Dr. Earleywine has extensive experience in the areas of drug and alcohol abuse, and has published 89 peer reviewed scientific articles, many of which examine marijuana use. Additionally, Dr. Earleywine has authored 5 books including "The Parents Guide to Marijuana." He has professional affiliations with the Association for the Advancement of Behavior Therapy, the Research Society on Alcoholism Member; Dr. Earleywine is on the Advisory Board of the National Organization for the Reform of Marijuana Law (NORML) and is on the Executive Board of the Marijuana Policy Project (MPP).

On August 12, 2009 the company announced that it has completed its review of the FDA licensing requirements and has made key progress with mapping out its initial cannabis drug medicines for FDA clinical trials. The Company has determined it will have more than one product in clinical testing and trials at the same time. This news comes following the identification of two distinct parallel paths in developing pharmaceutical products for FDA approval. The first being the highly publicized H1N1 Swine flu and the deadly H1N5 Avian flu, and the second being a newly formed initiative for Veterans who suffer from Post Traumatic Stress Disorder (PTSD). Together with these initiatives, Cannabis Science is laying a solid foundation for entrance into the FDA and other government regulatory agencies for developing medicines for 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, shareholders and prospective shareholders should recognize that any investment in our Company is risky and speculative, and could result in a total loss.

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RESULTS FOR THE QUARTER ENDED SEPTEMBER 30, 2009

The quarter ended September 30, 2009. Any reference to the end of the fiscal quarter refers to the end of the third calendar quarter for 2008 for the period discussed herein.

REVENUE. Revenue for the three months ended September 30, 2009, was \$0 compared to \$153,135 for the period ended September 30, 2008. The decrease is attributed to the oil properties acquired in 2007 and Curado Energy Resources, Inc., ("Curado") acquired in June 2008, which were disposed of in October 2008.

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GROSS PROFIT. Gross profit for the three months ended September 30, 2009, was \$nil compared to \$153,135 for the period ended September 30, 2008. The decrease in gross profit is due to the disposition of lease properties and Curado Energy Resources, as mentioned above, and the associated lost revenue with these operations.

OPERATING EXPENSES. Total operating expenses, net of depreciation expense of \$100 and \$100, respectively, for the three months ended September 30, 2009 and 2008, were \$930,135 compared to expenses for the period ended September 30, 2008 of \$177,350. 2008 expenses include a one-time nonrecurring gain of \$6,285,651 due to the voiding of former director contracts. The increase is due to professional fees of \$839,461; offset by reduced Other G&A of \$86,676 as there were no oil related contract services and associated expenses in 2009. It is anticipated the G&A costs will increase in future periods as the Company sets up its administration in support of R&D efforts.

NET INCOME (LOSS). Operating income for the three months ended September 30, 2009 was (\$930,235) compared to (\$24,315) for the period ended September 30, 2008. Net operating income for 2009 was impacted by increased professional fees associated with the issuance of common stock for services, along with revenue impacts previously discusses (see REVENUE).

Employees

As of September 30, 2009, the Company had two employees: its President/CEO and CFO.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES

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ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Management carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of September 30, 2009. This evaluation was accomplished under the supervision and with the participation of the Company's chief executive officer / principal executive officer, and chief financial officer / principal financial officer whom concluded that the Company's existing disclosure controls and procedures are not effective to ensure that all material information required to be filed in this quarterly Form 10-Q has been made known to them.

For purposes of this section, the term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. 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 September 30, 2009, our Chief Executive and Chief Financial Officer as of September 30, 2009 and as of the date of this Report, have concluded that as of the end of the periods covered by this report, we have identified the following material weaknesses in the Company's 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 incomplete segregation of duties necessary for a good system of internal controls.

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In order to remedy the Company's existing internal control deficiencies, as finances permit, it will hire additional accounting staff and implement further policies and procedures to address segregation of duties.

Changes in Internal Controls over Financial Reporting

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

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PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company became aware of a potential lawsuit that was initiated by K & D Equity Investments, Inc. ("K & D"), a shareholder of the Company and a party to the Asset Purchase Agreement that the Company entered into and disclosed on a Form 8-K filed with the SEC on April 7, 2009 (the "Asset Purchase Agreement"). K & D filed suit against Cannex Therapeutics, LLC, another party to the Asset Purchase Agreement, two of our directors and our transfer agent. K & D is alleging fraud, breach of contract and is seeking rescission of the Asset Purchase Agreement. On November 11, 2009, the Company signed a Settlement Agreement with K & D, which settled the legal claim K & D made against the Company for breach of the non-dilution provision of the Asset Purchase Agreement that provided additional shares to K & D in the event the Company sold shares below the price of \$1.00 per share in the twelve month period subsequent to the signing of the Asset Purchase Agreement. Under the terms of the Settlement Agreement (filed as an exhibit to this 10-Q), the Company issued 900,000 shares of common stock valued at \$468,000 based on

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the average closing price of its stock on November 11, 2009.

Item 1A. RISK FACTORS.

Not applicable.

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

The following sets forth certain information regarding sales of equity securities that were either not registered under the Securities Act or not previously included in a Current Report on Form 8-K during the three months ended September 30, 2009:

On August 26, 2009, the Company approved the private placement of 2,005,000 shares of common stock, at a price of \$0.05 per share, for proceeds of \$100,250.

On September 8, 2009, the Company approved the private placement of 260,000 shares of common stock, at a price of \$0.17 per share, for proceeds of \$44,200.

The proceeds from the private placements will be used for general working capital.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

No matter was submitted to a vote of our shareholders, through the solicitation of proxies or otherwise, during the quarter ended September 30, 2009.

ITEM 5. OTHER INFORMATION.

On November 11, 2009, the Company signed a Settlement Agreement with K & D Equity Investments, Inc, which resulted in the issuance of 900,000 shares of common stock valued at \$468,000. (see Item 1. Legal Proceedings)

ITEM 6. EXHIBITS.

The following exhibits are filed with the Form 10-Q:

Exhibit Number / Name of Exhibit

4.1 Certificate of Designation - Series A Preferred shares.

10.1 Settlement Agreement.

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31.1 Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) of the Exchange Act, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 United States Code Section 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

CANNABIS SCIENCE, INC.
(Registrant)

Date: November 19, 2009
By:
/s/ Dr. Robert Melamede

Dr. Robert Melamede
President and Chief Executive Officer

Date: November 19, 2009
By:
/s/ Richard Cowan

Richard Cowan
Treasurer and Chief Financial Officer

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EXHIBIT 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Dr. Robert Melamede, certify that:

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1. I have reviewed this quarterly report on Form 10-Q of CANNABIS SCIENCE, INC.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended quarterly report;

3. Intentionally omitted;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c)

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

Disclosed in this report any change to the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)

all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other

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employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2009

/s/ Dr. Robert Melamede
Dr. Robert Melamede
President and Chief Executive Officer

EXHIBIT 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Richard Cowan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CANNABIS SCIENCE, INC.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this amended quarterly report;

3. Intentionally omitted;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b)

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Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c)

Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d)

Disclosed in this report any change to the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an quarterly report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a)

all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b)

any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 19, 2009

/s/ Richard Cowan
Richard Cowan
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of CANNABIS SCIENCE, INC. (the "Company") on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operation of the Company.

Dated: November 19, 2009

/s/ Dr. Robert Melamede

Name: Dr. Robert Melamede

Title: Chief Executive Officer

Dated: November 19, 2009

/s/ Richard Cowan

Name: Richard Cowan

Title: Chief Financial Officer