

CANNABIS SCIENCE, INC.
Form 10-K
May 05, 2010

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, 2009**

**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

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(Address of principal executive offices) (ZIP Code)

(Registrant's telephone number, including area code)

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

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

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

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, 2009, 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 **\$4,130,881.90** based on the closing sale price of \$0.19 per share on that date.

Number of common shares outstanding at April 29, 2010: **33,820,574**

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 US 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.

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 the operations of Curado commencing in 3Q 2008.

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

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

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

2,100,000 shares to Cannex, and K & D transferred 8,500,000 shares to Cannex and others. A Form 8-K reflecting this transaction was timely filed. Please see Note 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 reflecting its new name.

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

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

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

As of May 4, 2010, 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 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.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER 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 2008

HIGH

LOW

Quarter Ending March 31, 2008

7.40

0.90

Quarter Ending June 30, 2008

2.50

0.25

Quarter Ending September 30, 2008

2.10

0.22

Quarter Ending December 31, 2008

0.30

0.09

Fiscal Year Ending December 2009

HIGH

LOW

Quarter Ending March 31, 2009

0.70

0.06

Quarter Ending June 30, 2009

1.50

0.10

Quarter Ending September 30, 2009

1.44

0.07

Quarter Ending December 31, 2009

0.57

0.43

Holders

As of December 31, 2009, there were 225 shareholders of record, including CEDE & Co., which holds shares for the beneficial interest of an unknown number of shareholders 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, 2009, we sold the following shares in unregistered offerings:

On August 27, 2009, the Company issued 2,005,000 common shares through private placements at \$0.05 per share.

On October 8, 2009, the Company issued 60,000 common shares through a private placement at \$0.17.

On December 14, 2009, the Company issued 100,000 common shares through a private placement at \$0.20.

On December 10, 2009, the Company issued 37,495 common shares through private placements at \$0.15.

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A total of 120,000 common shares, representing proceeds of \$30,000, remains in common shares subscribed but not yet issued at December 31, 2009.

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.

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.

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.

On November 6, 2009, the Company entered into debt settlement agreements with several parties as follows:

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Chipmunk Enterprises, LLC to settle \$66,000 in debt for 660,000 shares of common stock at a deemed price of \$0.10.

-

South Beach Live, Inc. to settle \$70,000 in debt for 1,000,000 shares of common stock at a deemed price of \$0.07.

-

South Beach Live, Inc. to settle \$12,000 in debt for 120,000 shares of common stock at a deemed price of \$0.10.

-

CMF Investments Inc. to settle \$70,000 in debt for 1,000,000 shares of common stock at a deemed price of \$0.07.

All relating shares were issued to settle the aforementioned debt.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGER'S 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 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 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

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 announced it had 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.

On 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 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.

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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 had completed its review of the FDA licensing requirements and had 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 came 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.

Results of Operations

Limited Revenues

Since our inception on January 27, 2005 to December 31, 2009, we have earned limited revenues of \$12,239. During the fiscal year ended December 31, 2009 we did not generate any revenues. As of December 31, 2009, we had an accumulated deficit of \$54,043,945. 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 net loss from continuing operations of \$54,043,945 since January 27, 2005 (date of inception) to December 31, 2009. Our net loss decreased, from \$5,160,690 for the fiscal year ended December 31, 2008 to \$4,532,061 for the fiscal year ended December 31, 2009, a decrease of \$628,629. For the fiscal year ended December 31, 2009, our net loss per share was \$0.22, compared to net income of \$0.60 per share for the same period in 2008.

Expenses

Our total expenses from January 27, 2005 (date of inception) to December 31, 2009 were \$50,411,206 and consisted of \$1,059,290 in investor relations, \$32,515,832 in professional fees, \$160,417 in technology license royalties, \$5,089,811 in impairment of oil and gas well lease, \$5,041,813 in net gain on settlement of liabilities, \$31,930 in depreciation and amortization and \$16,595,739 in general and administrative fees. Total expenses increased \$10,512,451 to \$4,453,287 for the fiscal year ended December 31, 2009 from a negative expense of \$6,059,164 for the same period in 2008.

Our investor relations expenses increased \$1,059,290 to \$1,059,290 for the fiscal year ended December 31, 2009 from \$nil for the same period in 2008. This was due to our engagement of various investor relations professionals.

Our professional fees increased \$873,211 to \$1,021,531 for the fiscal year ended December 31, 2009 from \$148,320 for the same period in 2008 mostly due to an increase in our operations. Our professional fees consisted mainly of amounts paid to our senior officers and fees paid to our other consultants.

Our general and administrative expenses increased by \$803,531 from \$78,167 for the fiscal year ended December 31, 2008 to \$881,698 for the same period ended December 31, 2009. The increase in general and administrative expenses was mainly due to an increase in our day to day operating activities. Our general and administrative expenses consist of office supplies, travel expenses, rent, communication expenses (cellular, internet, fax, telephone), office maintenance, courier and postage costs and office equipment.

Liquidity and Capital Resources

We expect that we only can generate limited revenues over the next twelve months. As of December 31, 2009, our current assets totaled \$243 which was comprised entirely of cash and cash equivalents. As of December 31, 2009, we had \$94,948 in intangible assets, net of accumulated amortization and \$2,645 in property and equipment, net of accumulated depreciation. As of December 31, 2009 we had a working capital deficit of \$1,113,033.

Our net loss of \$54,043,945 from January 27, 2005 (date of inception) to December 31, 2009 was mostly funded by our equity financing. We expect to incur substantial losses over the next two years. During the fiscal year ended December 31, 2009 our cash position slightly decreased by \$337.

During the fiscal year ended December 31, 2009, we received net cash of \$258,544 from financing activities compared to \$65,392 for the same period in 2008. We used net cash of \$256,925 in operating activities compared to \$69,581 for the same period in 2008. We used net cash of \$1,956 in investing activities compared to \$nil for the same period in 2008.

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 few 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 illnesses and for general health maintenance.

We are positioned to pursue the development of blood pressure and cancer medications. 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 phytocannabinoids, and their ability to inhibit metastasis in a variety of cancers.

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

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

The Company is currently focused on FDA approval of its first medical cannabis product targeted for veterans. Many veterans are already using herbal cannabis to self-medicate to relieve the symptoms of PTSD. Consequently, there is a clear need for standardized, FDA approved, oral cannabis products which can, and should be, provided to veterans and others who can benefit from its use. Medical cannabis has far fewer and milder side effects than most currently

prescribed pharmaceutical products do. We are working hard to have one or more products ready for FDA clinical trials as soon as possible.

The completion of a 1,300 participant veteran survey regarding PTSD (Post-Traumatic Stress Disorder) was announced on March 1, 2010. On the survey, veterans reported that cannabis helped with nearly all PTSD symptoms with special emphasis on three important components: sleep disturbance, irritability, and disturbing memories. These findings are significant given that PTSD is notorious for leading to difficulty falling and staying asleep. Responded also reported that aggression and disturbing thoughts were also greatly reduced through the use of cannabis. This survey demonstrates an advantage over conventional pharmaceutical research companies that Cannabis Science enjoys. As a patient-oriented company we know that real people with real problems are getting real relief from cannabis. Also, it is important to note that insomnia is a very widespread problem in the general population, especially senior citizens, so the need for cannabis based medicines for sleep is not confined to people with PTSD. In fact, it is a multi-billion dollar a year market.

On March 8, 2010, the Company signed an agreement with a highly specialized FDA regulatory compliance firm. The compliance firm will review and prepare technical data for Cannabis Science's FDA Pre-Investigative New Drug (IND) submission package for its Veterans PTSD Project. The compliance firm will also participate in the Pre-IND meetings for regulatory guidance and interactions with the FDA throughout the approval process. In addition, the compliance firm will provide high-level expertise in the steps following the IND approvals, including technical and regulatory writing of validation protocols for a comprehensive drug development program.

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.

We currently have 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.

(formerly GULF ONSHORE, INC.)

(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

DECEMBER 31, 2009

C O N T E N T S

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 Changes in Shareholders' Equity/(Deficit)

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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., (formerly Gulf Onshore, Inc.) (the Company) (a development stage company) as of December 31, 2009 and 2008 and the related statements of operations, stockholders' equity (deficit) and cash flows for the years then ended, and for the period January 27, 2005 through December 31, 2009. 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, 2009 and 2008, 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, 2009, 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 1 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 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the financial statements, the Company changed its presentation for the year ended December 31, 2008 for the foreclosure of the stock of its then wholly owned subsidiary, Curado Energy Resources, Inc., to be reflected as discontinued operations.

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

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

Certified Public Accountants

Dallas, Texas

May 3, 2010

F-1

CANNABIS SCIENCE, INC.

(formerly GULF ONSHORE, INC.)

(A DEVELOPMENT STAGE
COMPANY)

December 31, 2009

BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

December 31, 2008

\$

\$

ASSETS

Current assets:

Cash

243

580

Total current assets

243

580

Property and equipment, net of accumulated depreciation (Note 8)

2,645

1,567

Intangibles, net of accumulated amortization (Note 9)

94,948

-

TOTAL ASSETS

97,836

2,147

LIABILITIES AND STOCKHOLDERS'
DEFICIT

Current liabilities:

Accounts payable

412,862

359,179

Accrued expenses

113,914

	45,415
Due to related parties	
	66,500
	-
Accrued interest payable to affiliate	
	-
	136,346
Loan payable to officer	
	10,000
	-
Loan payable to affiliate	
	-
	814,742
Convertible note payable to stockholder	
	510,000
	-

Line-of-credit to affiliate

-

(3,031)

Total current liabilities

1,113,276

1,352,651

Stockholders' deficit:

Preferred stock, \$.001 par value, 1,000,000
shares authorized,

999,999 shares issued and outstanding at
December 31, 2009 and nil at 2008

1,000

-

Common stock, \$.001 par value, 250,000,000
shares authorized,

29,744,774 issued and outstanding as of
December 31, 2009 and 12,597,279 at
December 31, 2008

29,745

12,597

Additional paid-in capital

52,997,760

48,148,783

Deficit accumulated during the development
stage

(54,043,945)

(49,511,884)

Total stockholders' deficit

(1,015,440)

(1,350,504)

TOTAL LIABILITIES AND
STOCKHOLDERS' DEFICIT

97,836

2,147

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

F-2

CANNABIS SCIENCE, INC.

(formerly GULF ONSHORE, INC.)

Period from

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

**FOR THE YEARS ENDED DECEMBER 31, 2009
AND 2008**

**AND THE CUMULATIVE PERIOD FROM
JANUARY 27, 2005 (INCEPTION) TO DECEMBER
31, 2009**

January 27, 2005

(inception) to

December 31,

December 31,

December 31,

2009

2008

2009

\$

\$

\$

REVENUE

-

-

12,239

OPERATING EXPENSES

Investor relations

1,059,290

-

1,059,290

Professional fees

1,021,531

148,320

32,515,832

Technology license royalties

-

-

160,417

Impairment of oil and gas well lease

-

-

5,089,811

Net loss (gain) on settlement of liabilities (Note 5)

1,458,838

(6,285,651)

	(5,041,813
)	
Depreciation and amortization	
	31,930
	-
	31,930
General and administrative	
	881,698
	78,167
	16,595,739
Total operating expenses	
	4,453,287
	(6,059,164)
	50,411,206
NET OPERATING PROFIT (LOSS)	
	(4,453,287)
	6,059,164
	(50,398,967
)	

Other income

88

30,142

30,230

Interest expense, net

(78,862)

(71,486)

(150,348

)

Beneficial conversion feature

-

(32,335)

(1,098,992

)

NET INCOME (LOSS) BEFORE INCOME TAXES

(4,532,061)

5,985,485

	(51,618,077
)	
Income tax provision	-
	(2,035,065)
	(2,035,065
)	
Income tax benefit (Note 3)	-
	1,210,270
	1,210,270
	-
	(824,795)
	(824,795
)	
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(4,532,061)

	5,160,690
	(52,442,872
)	

Discontinued operations

	-
	(2,425,868)
	(2,425,868
)	

Income tax benefit

	-
	824,795
	824,795
	-

	(1,601,073)
	(1,601,073
)	

NET INCOME (LOSS)

(4,532,061)

	3,559,617
	(54,043,945
)	

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

(0.22)

0.87

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

-

(0.27)

NET INCOME (LOSS) PER SHARE BASIC AND
DILUTED

(0.22)

0.60

WEIGHTED AVERAGE SHARES OUTSTANDING
BASIC

AND DILUTED

20,609,930

5,919,245

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

F-3

CANNABIS SCIENCE, INC.

(formerly GULF ONSHORE, INC.)

Statement of Shareholders' Equity / (Deficit)

For the Period from January 27, 2005 (inception) to
December 31, 2009

		Common Par	Preferred Shares	Additional Paid-in Par	Capital	Prepaid Consulting	Accumulated Deficit	Totals
	Shares	\$		\$	\$		\$	\$
Balance at January 27, 2005	-	-	-	-	-	-	-	-
Founder s								
Stock Issued	83,800	84	(84)	-	-	-	-	-
Stock Issued	8,000	8	399,992	-	-	400,000	-	-

for Debt

Shares Issued 86,188 86 (86) - - -Effect of Reverse Merger

for License

Agreement

13,840

14

(200,014)

-

-

(200,000)

Divestiture of Subsidiary to Related Party

544,340

544,340

Net Loss

(807,600)

(807,600)

Balance at December 31, 2005

191,828

192

744,148

(807,600)

(63,260)

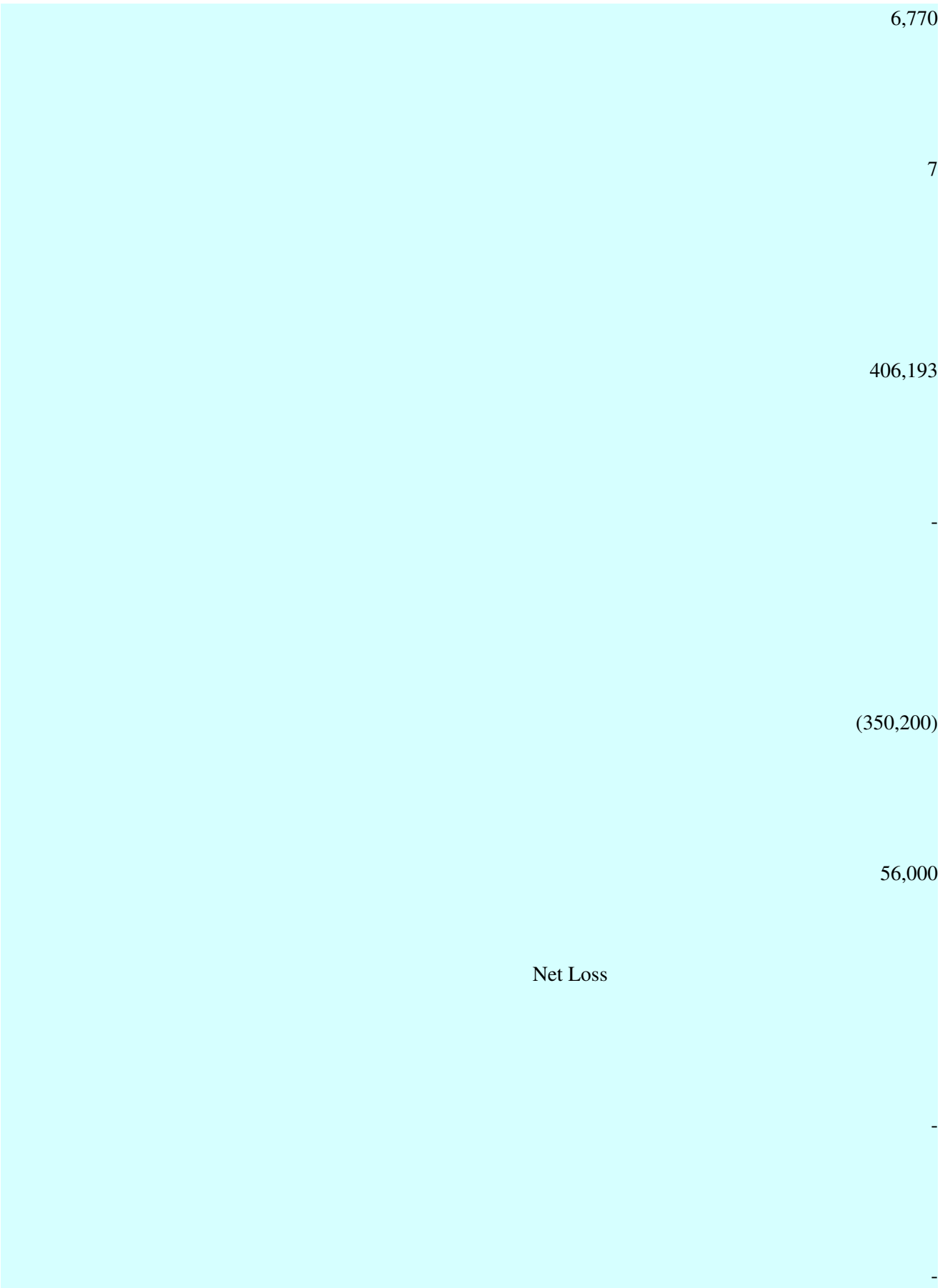
Shares Issued for Employment

45,500

45

8,487,455

	8,487,500
Shares Issued for Services	
	171,080
	171
	28,798,329
	(7,633,750)
	-
	21,164,750
Shares Issued for Lease Agreement	



6,770

7

406,193

-

(350,200)

56,000

Net Loss

-

-

(36,906,584)

(36,906,584)

Balance at December 31, 2006

415,178

415

-

-

38,436,125

(7,633,750)

(38,064,384)

(7,261,594)

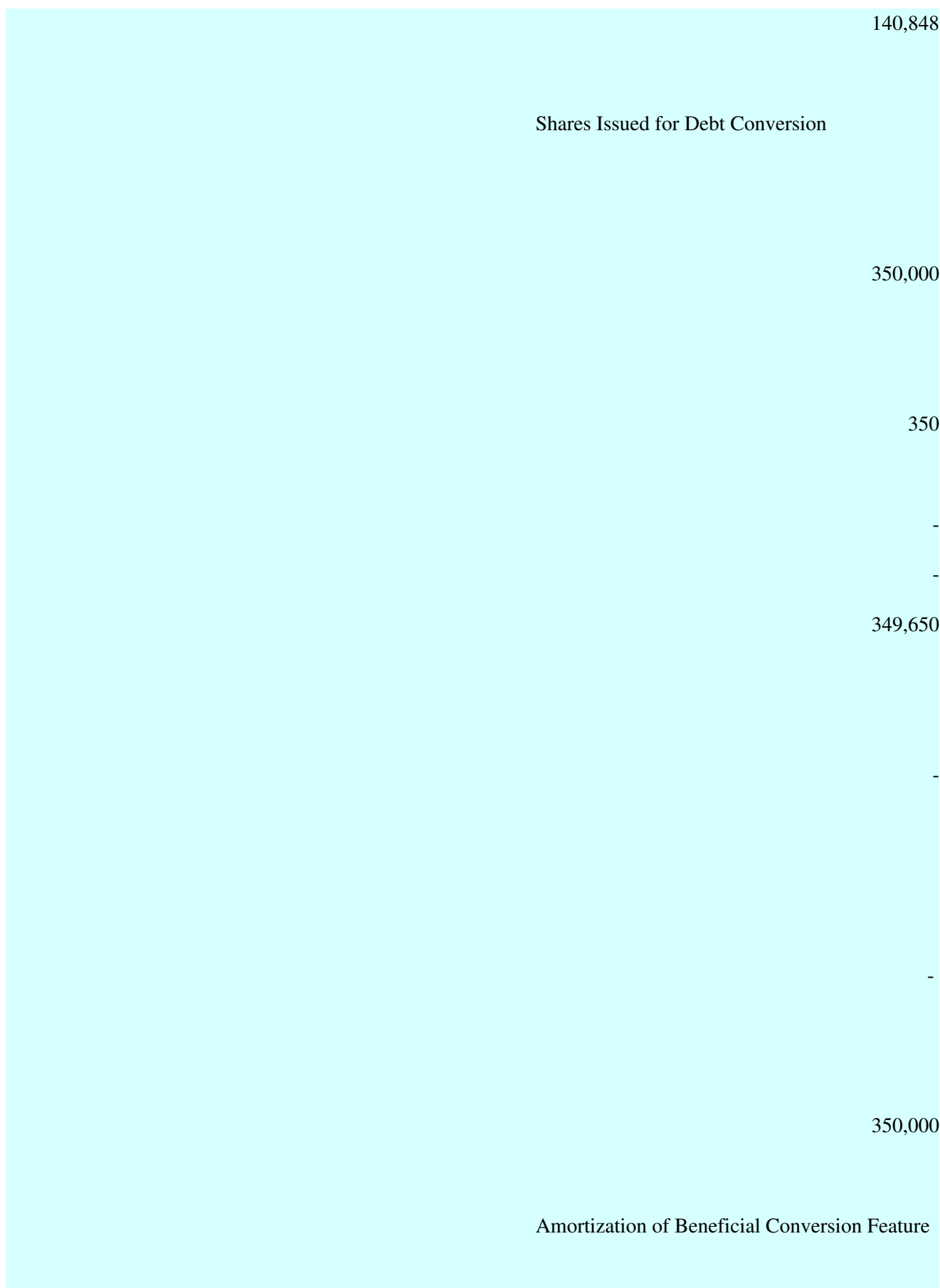
Shares Issued For Services

63,020

63

528,285

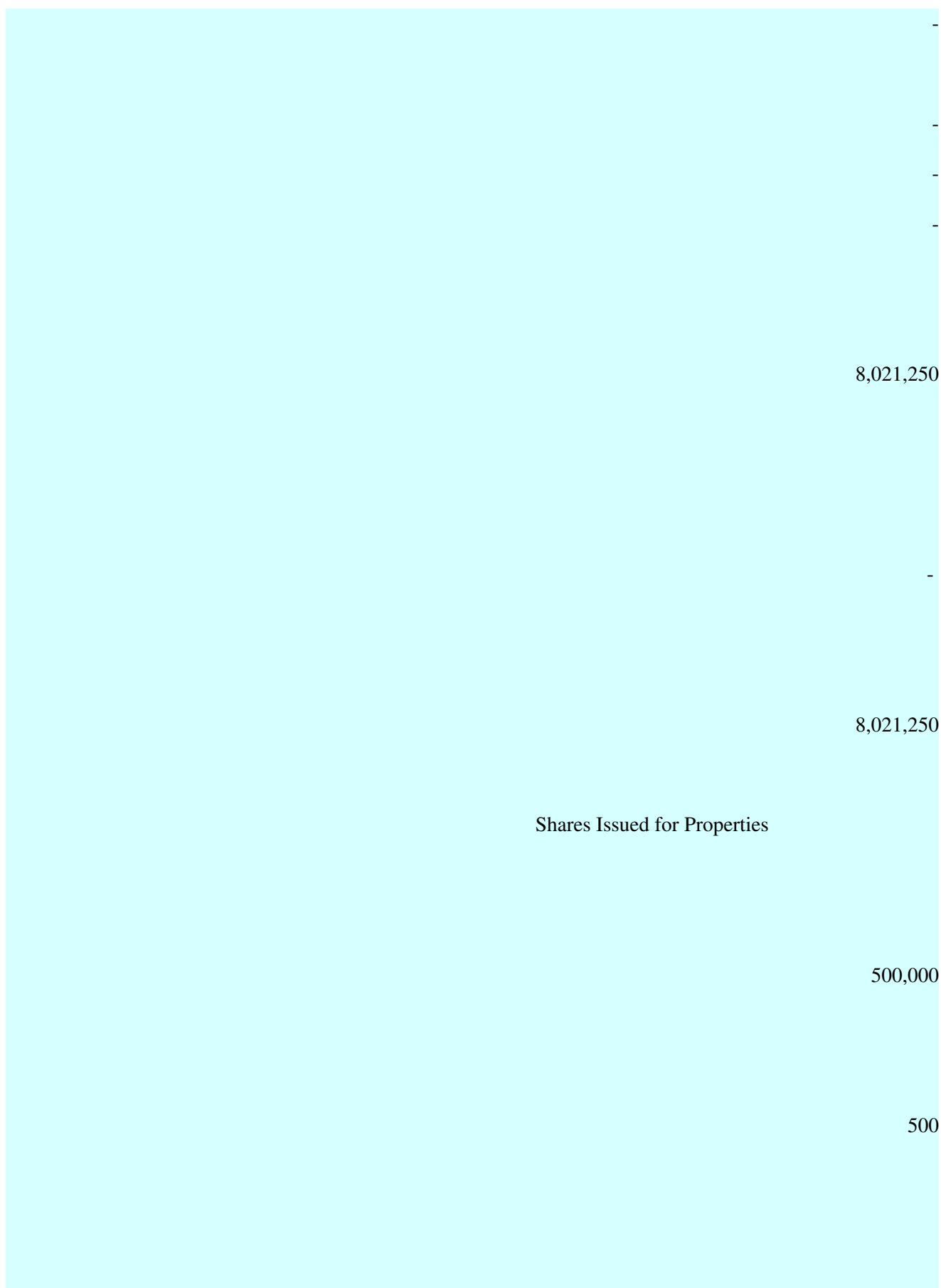
(387,500)



1,066,657

1,066,657

Amortization of shares issued for services



8,021,250

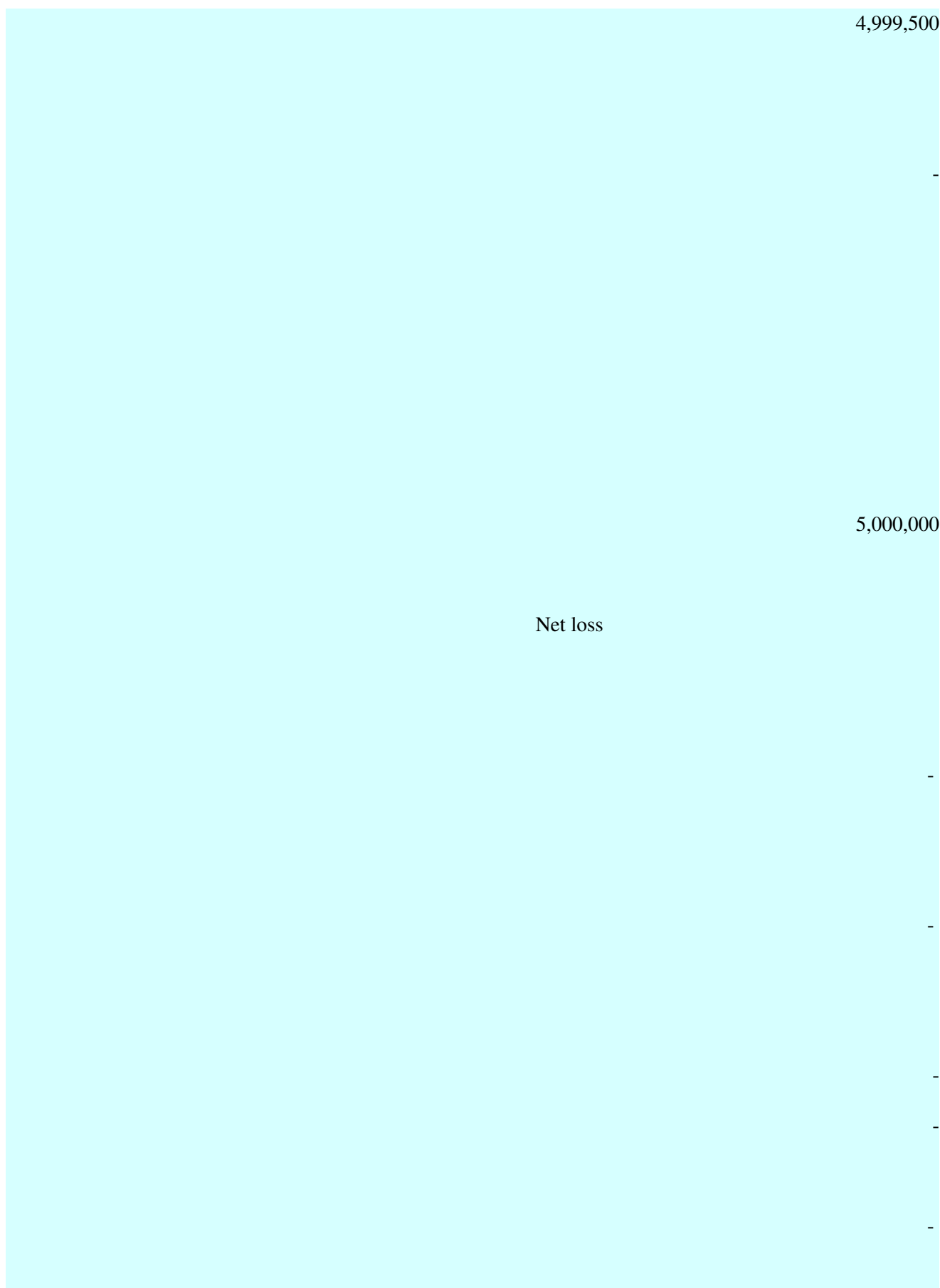
-

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)

-

-

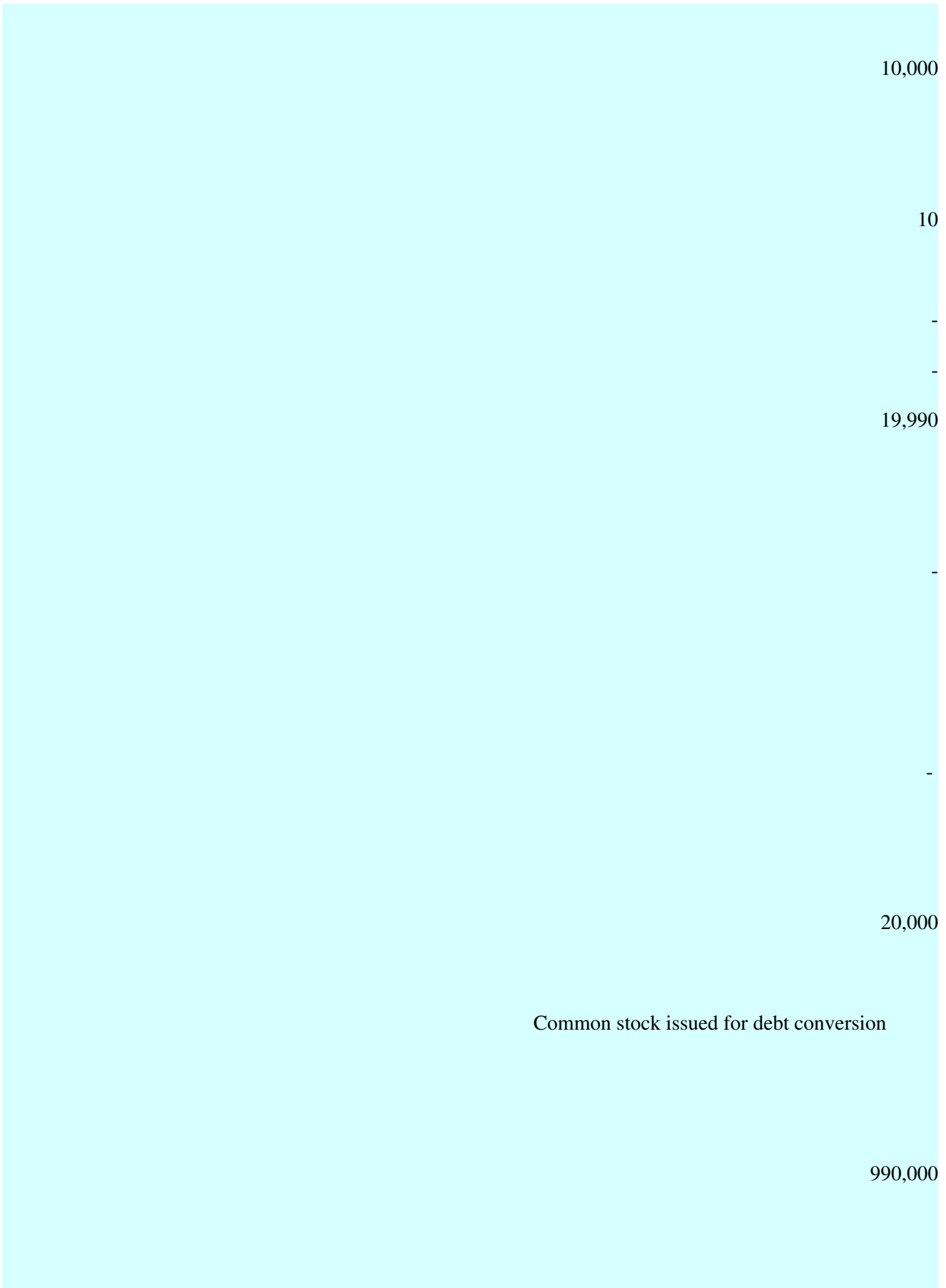
1

-

-

-

Common stock issued for cash



10,000

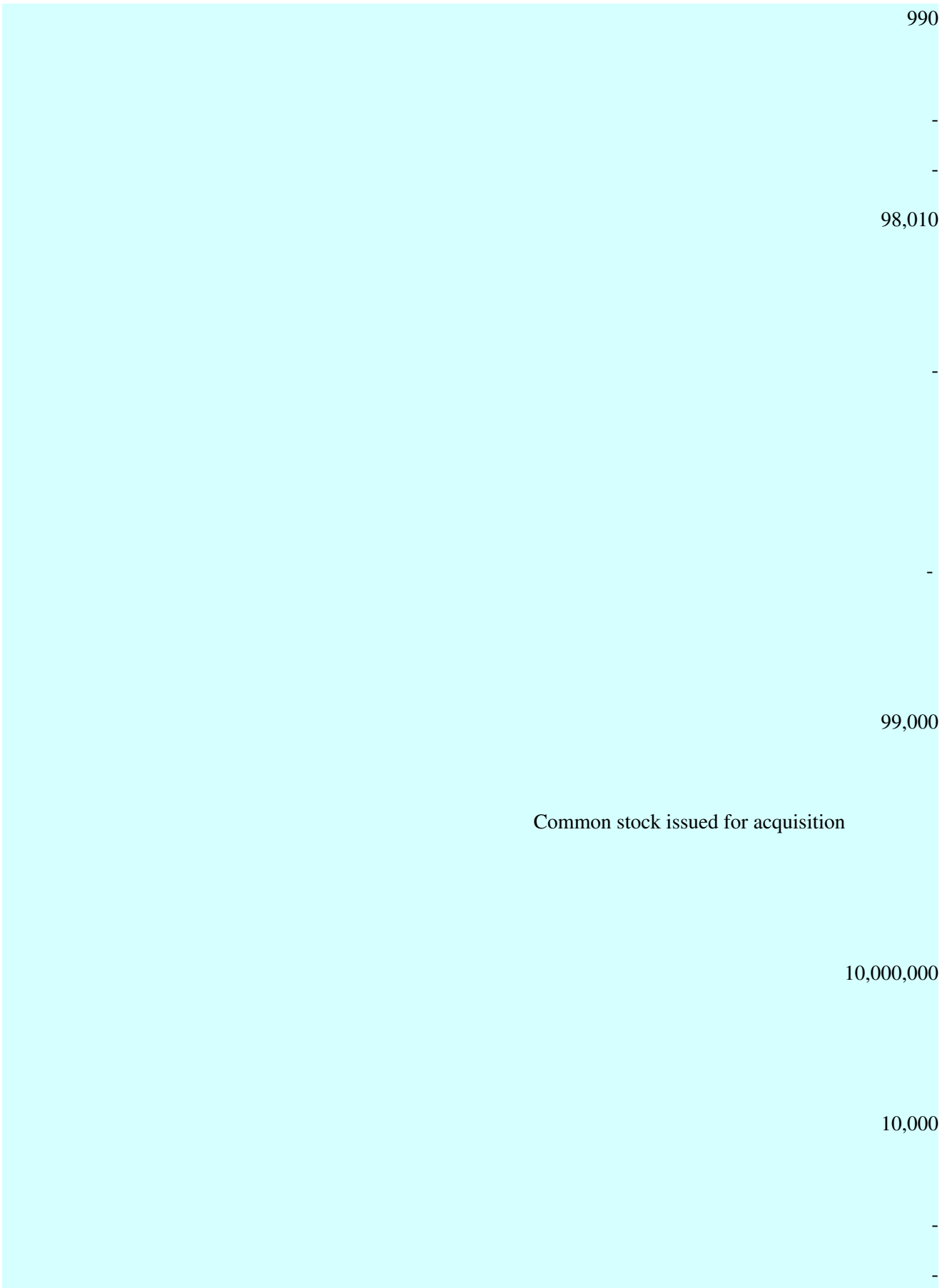
10

19,990

20,000

Common stock issued for debt conversion

990,000



990

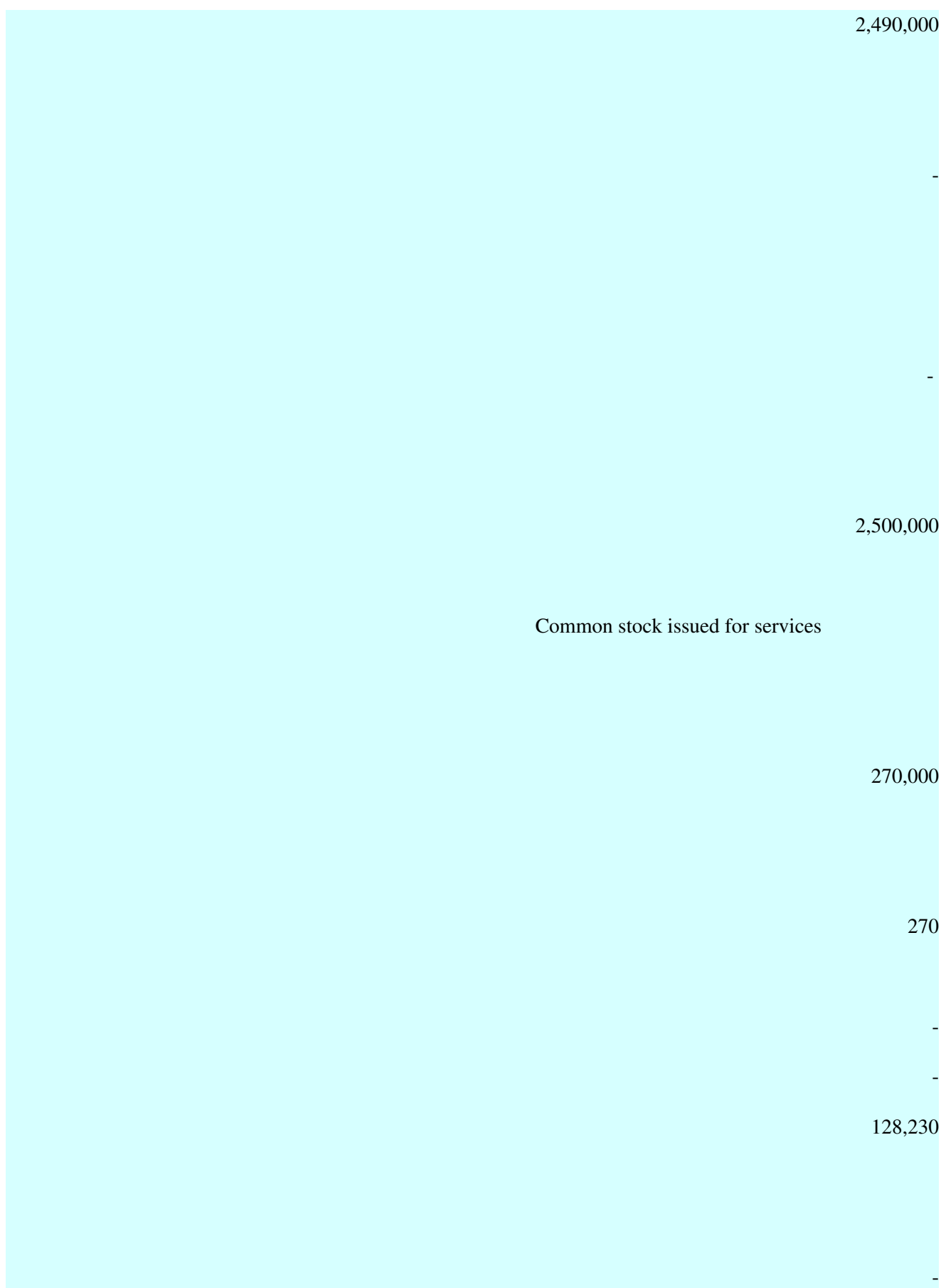
98,010

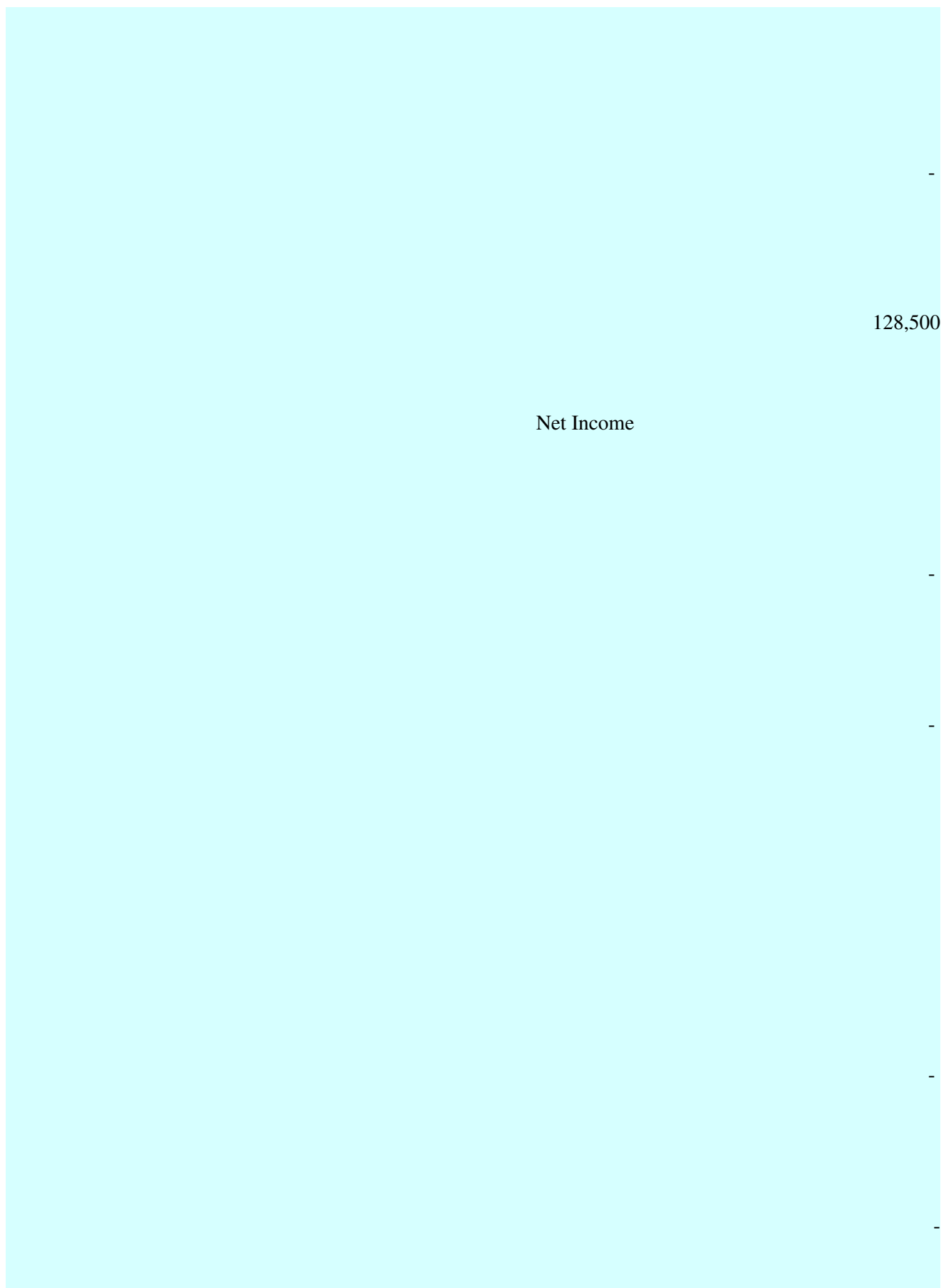
99,000

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

-

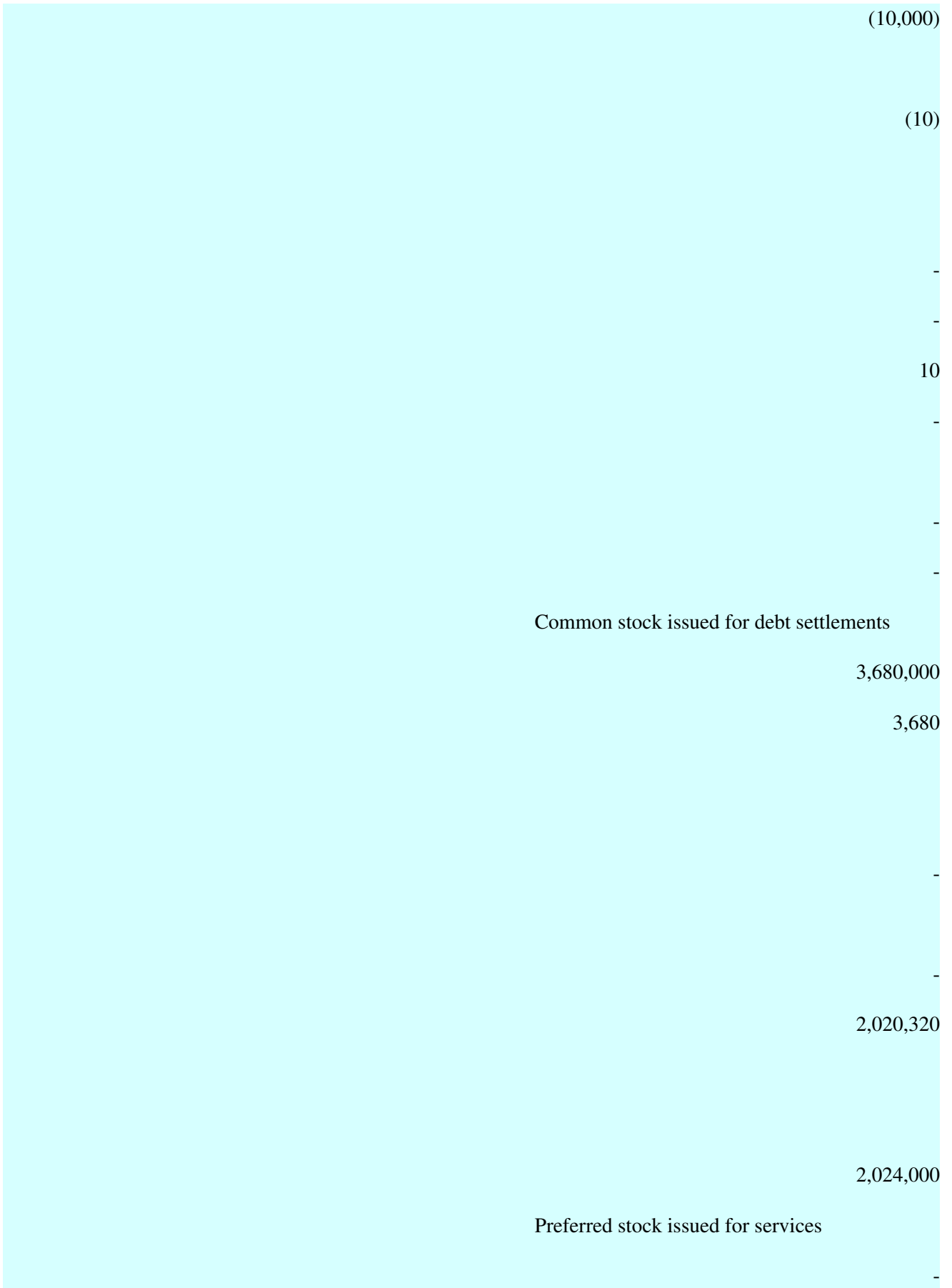
-

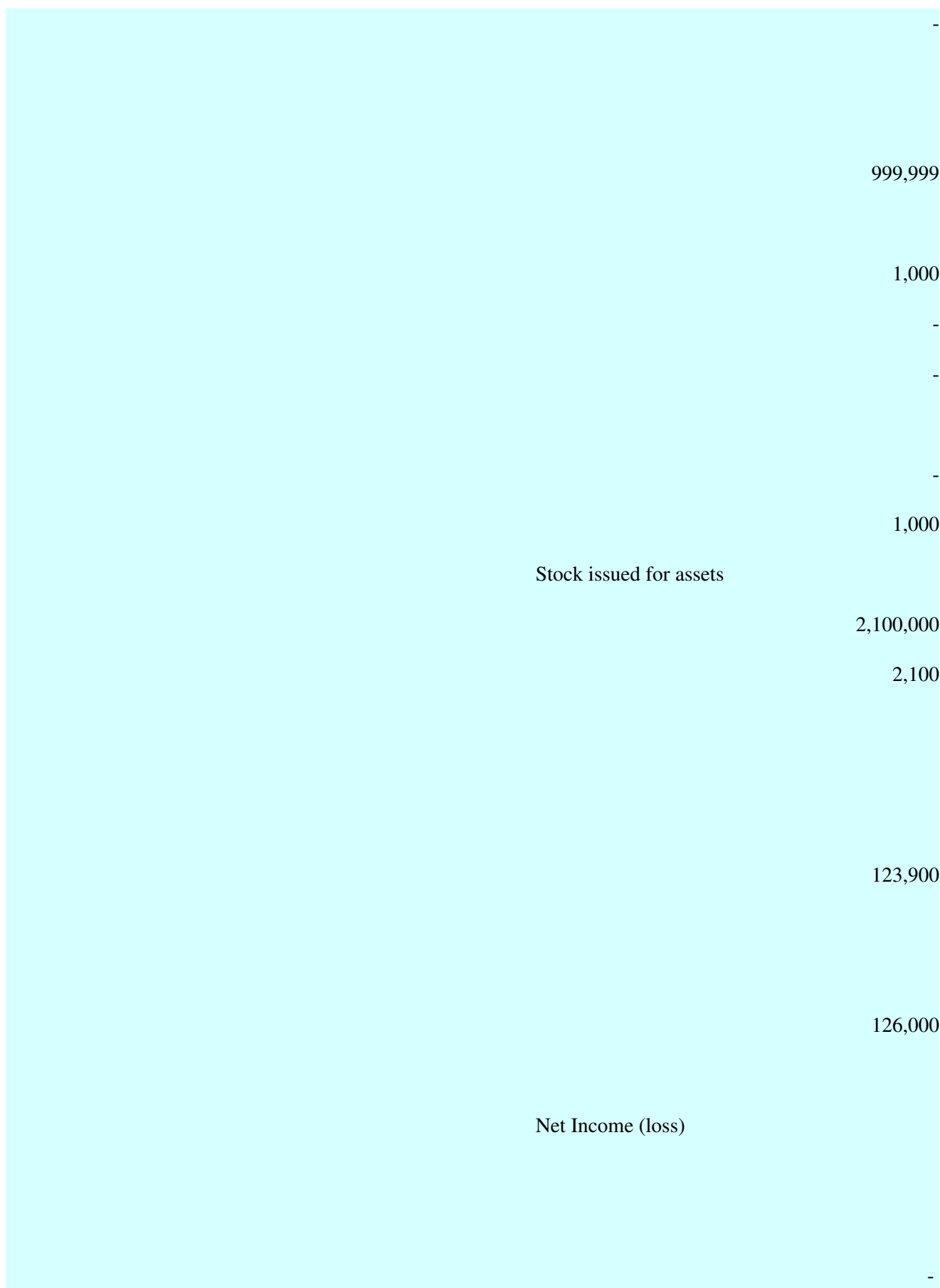
2,507,195

-

2,516,050

Cancellation of stock





-

-

-

-

-

(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)



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

F-4

CANNABIS SCIENCE, INC.

(formerly GULF ONSHORE, INC.)

(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

AND THE CUMULATIVE PERIOD FROM JANUARY 27, 2005 (INCEPTION) TO DECEMBER 31, 2009

	Period from January 27, 2005 December (inception) 31, 2008 to Dec 31, (as restated) 2009	
December 31, 2009	December 31, 2008 (as restated)	2009
\$	\$	\$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)

(4,532,061)

3,559,617

(54,043,945

)

Plus:

Net (income) loss from discontinued operations

-

(1,601,073)

(1,601,073

)

Income (loss) from continuing operations

(4,532,061)

5,160,690

(52,442,872)

Adjustments to reconcile net income (loss) to cash used in operating activities:

Depreciation and depletion

31,930

400

14,455

Impairment on oil lease investments

-

-

5,076,667

Write off oil and gas properties

-

-

-

Stock issued for services

2,517,050

112,420

32,422,567

Gain (loss) on settlement of debt

1,458,838

(5,000,000)

1,458,838

Amortization expense

-

32,335

9,501,495

Changes in certain assets and liabilities:

(Increase) decrease in accounts receivable

-

11,675

	(2,087)
(Increase) decrease in inventory	-
	-
	(29,102)
Increase in accounts payable	53,683
	29,596
	1,548,647
Increase (decrease) in accrued expenses	68,499
	(1,387,110)
	(940,141)
Increase (decrease) in due to related parties	66,500
	-
	66,500
Increase in accrued interest payable to affiliate	78,636
	71,486

214,982

CASH FLOWS USED IN OPERATING ACTIVITIES FROM CONTINUING
OPERATIONS

(256,925

)

(968,508)

(3,110,051)

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM
DISCONTINUED OPERATIONS

-

898,927

898,927

NET CASH USED IN OPERATING ACTIVITIES

(256,925)

(69,581)

(2,211,124)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of oil & gas leases

-

-

(30,000

)

Purchase of property, plant & equipment

(1,956)

-

(42,908

)

CASH FLOWS USED IN INVESTING ACTIVITIES

(1,956

)

-

(72,908

)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from convertible note related party

-

-

951,342

Advances from relates parties

58,469

45,392

1,112,858

Proceeds from the sale of common stock and subscriptions

200,075

20,000

220,075

CASH FLOWS PROVIDED BY FINANCING ACTIVITIES

258,544

65,392

2,284,275

NET INCREASE (DECREASE) IN CASH

(337)

(4,189)

243

CASH, BEGINNING OF PERIOD

580

4,769

-

CASH, END OF PERIOD

243

580

243

SUPPLEMENTAL CASH FLOW INFORMATION:

Issuance of common stock for services

2,507,195

-

-

Related party note payable

-

250,000

250,000

Net liabilities assumed with recapitalization

-

-

200,000

Divestiture of subsidiary to related party

-

-

544,340

Common stock issued for debt

2,024,000

99,000

1,149,000

Common stock issued for acquiring oil & gas leases

-

2,500,000

7,906,200

Issuance of common stock for assets

126,000

-

-

Issuance of preferred stock for services

1,000

-

-

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

F-5

CANNABIS SCIENCE, INC.

(formerly GULF ONSHORE, INC.)

(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

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 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 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.

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 reflecting its new name.

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

In response to a comment letter received from the Staff of the Securities and Exchange Commission, the Company has treated the disposition of Curado in connection with the Accord and Satisfaction Agreement between the Company and South Beach as a disposition of a subsidiary and has presented Curado's operations in the financial statements as discontinued operations.

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The following tables show the amounts as reported in the statements of operations and cash flows as originally filed compared to the amounts in the restated statements of operations and cash flows.

December 31, 2008 as restated	December 31, 2008 as reported in original filing	Effect of change	
\$	\$	\$	
			REVENUE FROM OIL & GAS OPERATIONS
			-
			447,412
			(447,412
		)	
			Lease operating expenses
			-
			230,164
			(230,164
		)	

PROFIT FROM OIL & GAS OPERATIONS

-

217,248

(217,248

)

OPERATING EXPENSES

Professional fees

148,320

191,371

	(43,051
)	
Impairment of oil and gas well lease	
	-
	2,400,000
	(2,400,000
)	
Net gain on settlement of liabilities	
	(6,285,651)
	(6,285,651
	)
	-
Other general and administrative	
	78,167
	152,479
	(74,312
)	
Total operating expenses	

(6,059,164)

(3,541,801

)

(2,517,363

)

INCOME (LOSS) FROM CONTINUING OPERATIONS

6,059,164

3,759,049

(2,300,115

)

Other income

30,142

1,439

28,703

95

Beneficial conversion feature

(32,335)

(32,335

)

-

Interest expense, net

(71,486)

(71,486

)

-

Loss on disposition of subsidiary

-

(97,050

)

97,050

INCOME (LOSS) FROM CONTINUING OPERATIONS

BEFORE INCOME TAXES

	5,985,485
	3,559,617
	(2,425,868
)	

Income tax provision

(2,035,065)

(1,210,270

)

824,795

Income tax credit

1,210,270

1,210,270

-

INCOME (LOSS) FROM CONTINUING OPERATIONS

5,160,690

3,559,617

(1,601,073)

LOSS FROM DISCONTINUED OPERATIONS

(1,601,073)

-

1,601,073

NET INCOME (LOSS)

3,559,617

3,559,617

-

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

0.87

0.60

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

(0.27)

-

NET INCOME (LOSS) PER SHARE BASIC AND DILUTED

0.60

0.60

WEIGHTED AVERAGE SHARES OUTSTANDING BASIC
AND DILUTED

5,919,245

5,919,245

F-8

December 31, 2008
as

December 31, 2008

reported in original

as restated

filing

Effect of change

\$

\$

\$

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income (loss)

3,559,617

3,559,617

-

Plus:

Net loss from discontinued operations

1,601,073

-

1,601,073

Income (Loss) from continuing operations

5,160,690

3,559,617

1,601,073

Adjustments to reconcile net income (loss) to cash used in operating activities:

Depreciation and depletion

400

102

	2,338
	(1,938
)	
Impairment on oil lease investments	-
	2,400,000
	(2,400,000
)	
Write off oil and gas properties	-
	100,000
	103

(100,000
)

Stock issued for services

112,420

128,500

(16,080

)

Amortization of beneficial conversion feature

32,335

32,335

-

Shares to be issued

(5,000,000)

(5,000,000)

-

Loss on disposition of subsidiary

-

97,050

(97,050

)

Changes in certain assets and liabilities:

(Increase) decrease in accounts receivable

11,675

11,675

-

Increase in accounts payable

29,596

29,596

-

Decrease in accounts payable related party

-

(69,688)

69,688

Increase (decrease) in accrued expenses

(1,387,110)

106

(1,387,110)

-

Increase in Others

-

1,950

(1,950

)

Increase in accrued interest to affiliate

71,486

71,487

-

CASH FLOWS USED IN OPERATING ACTIVITIES FROM CONTINUING OPERATIONS

(968,508)

(22,251)

(946,257

)

CASH FLOWS PROVIDED BY OPERATING ACTIVITIES FROM DISCONTINUED
OPERATIONS

898,927

-

898,927

NET CASH USED IN OPERATING ACTIVITIES

(69,581)

(22,251)

(47,330

)

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property, plant & equipment

-

(1,938)

1,938

CASH FLOWS USED IN INVESTING ACTIVITIES

-

(1,938)

1,938

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from line-of-credit to affiliate

45,392

-

45,392

Proceeds from the sale of common stock and subscriptions

20,000

20,000

110

	-
Loans payable to related parties	-
	-
	-
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	65,392
	20,000
	45,392

NET INCREASE IN CASH

(4,189

)

(4,189

)

-

CASH, BEGINNING OF PERIOD

4,769

4,769

-

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CASH, END OF PERIOD

580

580

-

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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, Inc., 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 ASC 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) 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 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 shareholder 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 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.

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 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 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 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.

G. Fair Value of Financial Instruments

Under ASC 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 cash, accounts payable, accrued expenses, and accrued interest payable to affiliates approximate their carrying amounts due to the relatively short maturity of these instruments. The carrying value of lines of credit and notes payable to affiliates also approximate fair value since they bear market rates of interest and other terms. None of these instruments are held for trading purposes.

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. Management has determined that it will not, at this time, adopt fair value accounting for nonfinancial assets or liabilities currently recorded in the financial statements.

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.

J. 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 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.

K. 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.

Unfiled Federal Tax Returns

From inception through December 31, 2009, the Company had 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 260, "Earnings Per Share" ("EPS"), the Company provides for the calculation of basic and diluted earnings per share. Basic EPS includes no dilution and is computed by dividing income or loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution of securities that could share in the earnings or losses of the entity. For the periods January 1, 2008 to December 31, 2009 and from inception through December 31, 2009, basic and diluted loss per share are the same since the calculation of diluted per share amounts would result in an anti-dilutive calculation.

M. Development Stage Enterprise

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

N. Recent Accounting Pronouncements

Beginning on July 1, 2009, the Financial Accounting Standards Board (FASB) implemented a new accounting referencing system known as the Accounting Standards Codification (ASC). This new reporting and disclosure method is applicable for annual and interim periods ending after September 15, 2009. The accompanying financial statements have been prepared with the use of the ASC reference system. The ASC does not alter current accounting principles generally accepted in the United States of America (GAAP), but rather integrates existing accounting standards with other authoritative guidance. The ASC provides a single source of authoritative GAAP for nongovernmental entities and supersedes all other previously issued non-public accounting and reporting guidance. The adoption of the ASC did not have any effect on the Company's financial statements.

During the year ended December 31, and through May 3, 2010, there were several new accounting pronouncements issued by the FASB the most recent of which was Accounting Standards Update 2010-17, Topic 605, *Revenue Recognition Milestone Method: A Consensus of the FASB Emerging Issue Task Force*. Each of these pronouncements, as applicable, has been or will be adopted by the Center.

Management has reviewed these new standards and believes that they have no material impact on the financial statements of the Company.

O. Reclassifications

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

P. Subsequent Events

In preparing the financial statements, the Company has reviewed, as determined necessary by the Company's management, events that have occurred after December 31, 2009, up until the issuance of the financial statements, which occurred on May 3, 2010.

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 \$54,043,945 and had a stockholder's deficit of \$1,015,440 at December 31, 2009.

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, 2009, the Company had no operations. There can be no assurance that management will be successful in implementing its plans. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

existing investors. We had been relying on our common stock to pay third parties for services which has resulted 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 \$1,525,789 (in addition to the preacquisition annual limitation carryforward 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.

On March 30, 2009 the Company had a change of control involving one of its 5% or greater shareholders and a change in business operations (Note 1). The impact of the IRS limitations was a reduction in the loss carryforwards totalling \$16,849,152.

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At December 31, 2009 and 2008, the Company had available federal and state net operating loss (NOL) carryforwards amounting to approximately \$1,525,789 and \$16,834,041, respectively, that are available to offset future federal and state taxable income and that expire in various periods through 2029 for federal tax purposes and 2015 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 net change in valuation allowance during 2009 was a decrease of approximately \$15.3 million.

The following table sets forth the significant components of the net deferred tax assets for operations in the US as of December 31, 2009 and 2008.

	2009	2008
Deferred tax assets:		
NOL expense (benefit)	\$ (1,525,789)	\$ (16,834,041)
		Net deferred tax assets
		\$
		-
		\$
		-
Less: valuation allowance	1,525,789	16,834,041

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, 2009 and 2008 is as follows:

2009

2008

Income tax expense (benefit) at statutory federal rate

\$

(1,540,901)

34%

\$

1,210,270

34%

State income taxes

-

-

NOL limitation (Note 3)

16,849,152

-372%

123

-

Increase (decrease) in valuation allowance

(15,308,251)

338%

(1,210,270)

-34%

Income tax expense (benefit) at Company's effective tax rate

\$

-

0%

\$

-

0%

4. EQUITY TRANSACTIONS

The Company is authorized to issue 250,000,000 shares of common shares with a par value of \$.001 per share. These shares have full voting rights. There were 29,624,774 issued and outstanding as of December 31, 2009.

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, 2009.

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A. Warrants

A summary of the warrant activity for the years ended December 31, 2009 and 2008 is as follows:

Warrants Outstanding	
Weighted Average Exercise Price	
Outstanding, December 31, 2007	
	180,000
	\$ 67.00
Granted	

-

-

Forfeited / Cancelled

-

-

Exercised

	-
	-
Outstanding, December 31, 2008	
	180,000
	\$ 67.00
Granted	
	-
	-
Forfeited / Cancelled	
	-
	-
Exercised	
	-
	-
	128

Outstanding, December 31, 2009

180,000

\$ 67.00

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 expires 5 years from the date of issuance.

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 expire 5 years from the date of issuance.

The weighted average remaining contractual life of warrants outstanding is .1 and 1.10 years at December 31, 2009 and 2008, respectively. During the years ended December 31, 2009 and 2008 the Company has not issued any warrants.

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, 2009 and December 31, 2008, no options to purchase the Company's common stock have been granted under the Plan.

There were no options outstanding at December 31, 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 2009 and 2008 no additional shares were issued.

5. RELATED PARTY TRANSACTIONS

During the period July to December 2009, the Company accrued \$50,000 in management fees to directors and officers, which remain outstanding at December 31, 2009. These amounts remain outstanding as of the filing date of this form 10-K.

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 beneficial 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.

Subsequent to the year-end the stockholder sold a portion of the note payable totalling \$275,000, which was converted at \$0.10 per share into 2,750,000 common shares by the purchasers of the debt as settlement.

On December 23, 2009, a director of the Company loaned the Company \$10,000. The loan does not bear interest and has no repayment terms. The loan was repaid on January 6, 2010.

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

There is no rental or lease agreement that commits the company beyond monthly rental payments. The Company is not committed to any lease obligations.

The Company currently rents office space at 6946 N. Academy Blvd, Suite B #254, Colorado Springs, CO 80918.

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C.

Liabilities

Included in Accrued liabilities on the balance sheet at December 31, 2009, 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 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 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 totalled \$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 state's 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.

From inception through December 31, 2008, the Company had not filed any 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. 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.

8. EQUIPMENT

	2009	2008
	\$	\$
Equipment	2,167	1,567

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).

9. INTANGIBLE ASSETS

2009

Intellectual assets, primarily intellectual property

126,000

Less: accumulated amortization

\$

(31,052)

Net intellectual assets

94,948

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 \$31,000 each year for the next four years.

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10. 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	<u>824,795</u>
Loss from discontinued operations	\$ (<u>1,601,074</u>)

11. SUBSEQUENT EVENTS

On January 4, 2010, the Company issued 95,800 common shares to an investor for which no payment was received.

On January 21, 2010, the Company issued 300,000 for a private placement at \$0.17 for net proceeds of \$47,500 after paying a finder's fee of \$3,500, issued 50,000 common shares for services rendered and, issued 400,000 common shares for settlement of \$40,000 in shareholder debt. The Company also issued 60,000 common shares to an advisor for services rendered in 2010.

On February 8, 2010, the Company issued 1,750,000 common shares for settlement of \$175,000 of shareholder debt assigned from the shareholder note payable owing at December 31, 2009.

On March 8, 2010, the Company issued 600,000 common shares for settlement of \$60,000 of debt assigned from the shareholder note payable owing at December 31, 2009.

On March 12, 2010, the Company issued 470,000 common shares to consultants and advisors for services rendered. The Company issued 300,000 common shares for a private placement at \$0.17 for net proceeds of \$45,000 after paying finder's fees of \$6,000. The Company issued 50,000 common shares subscribed in January 2010 at \$0.10 for proceeds of \$5,000 received in full.

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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, 2009, our Chief Executive and Chief Financial Officer as of December 31, 2009 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, 2009. Based on its evaluation, our management concluded that, as of December 31, 2009, 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, 2009, our officers and directors were as follows:

NAME
Dr. Robert Melamede
AGE
62
OFFICE
President & CEO
SINCE
2009
Richard Cowan
AGE
70
OFFICE
CFO, Director and Secretary
SINCE
2009

The Directors named above will serve until the next annual meeting of our shareholders. Thereafter, Directors will be elected for one-year terms at the annual shareholders' 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% shareholders 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 and the Principal Financial 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 2009, the Company paid a total of \$60,000 in executive compensation, all of which was regular compensation. The table below shows the compensation split:

	Cash compensation	Stock issuances	Total Compensation
Dr. Robert Melamede	\$ 30,000	\$ -	\$ 30,000
Richard Cowan	30,000	-	30,000
	\$ 30,000	\$ -	\$ 30,000

Employment Agreements

Currently, the Company has no employment agreements outstanding.

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 written employment agreements with our directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

There were 29,624,774 shares of our common stock issued and outstanding on December 31, 2009. The following tabulates holdings of shares of the Company by each person who, subject to the above, at the date of this Report, holds of record or is known by Management to own beneficially more than five percent (5%) of our common stock and, in addition, by all of our directors and officers individually and as a group.

NAME AND ADDRESS

Cannex Therapeutics, LLC

548 Market Street

STE 16645

San Francisco, CA 94104

Jason Springett ⁽¹⁾

3129 Centennial Drive

Burlington, ON L7M 1B8, Canada

Bogat Family Trust

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

Dr. Robert Melamede ⁽²⁾

1237 Culebra Avenue

Colorado Springs, CO 80903

Richard Cowan ⁽²⁾

2950 East Ranchero Dr., Apt 5

Palm Springs, CA 92262

ALL DIRECTORS AND

EXECUTIVE OFFICERS

NUMBER OF SHARES

OWNED BENEFICIALLY

6,996,000

1,479,090

1,590,000

1,007,000

1,007,000

2,014,000

PERCENT

OF SHARES OWNED

23.6%

5.0%

5.36%

3.40%

3.40%

6.80%

- (1) Directly and beneficially through Catalyst Xchange Corp.
- (2) 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.

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

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

On December 23, 2009, a director loaned the Company \$10,000. The amount loaned bears no interest and without terms or conditions. It is understood that these monies will be repaid to the director when Company finances permit. The loan was repaid in full on January 6, 2010.

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 2009 was \$22,226 and in 2008 was \$35,000.

(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 \$4,500 per quarter.

(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.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Exhibits filed with report:

31.1

Certification by Dr. Robert Melamede, Chief Executive Officer, as required under Section 302 of Sarbannes-Oxley Act of 2002, attached hereto.

31.2

Certification by Richard Cowan, Chief Financial Officer, as required under Section 302 of Sarbannes-Oxley Act of 2002, attached hereto.

32.1

Certification as required under Section 906 of Sarbannes-Oxley Act of 2002, attached hereto.

32.2

Certification as required under Section 906 of Sarbannes-Oxley Act of 2002, attached hereto.

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.

May 4, 2010

By: /s/ Dr. Robert J. Melamede

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

May 4, 2010

Dr. Robert Melamede

Officer, Director

/s/ Richard Cowan

Chief Financial Officer

May 4, 2010

Richard Cowan

Director