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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

Or

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

For the transition period from ______________________to_________________________

Commission File Number: **000-54582**

UNITED CANNABIS CORPORATION

(Exact name of Registrant as specified in its charter)

Colorado	**46-5221947**
(State or other jurisdiction of incorporation or formation)	(I.R.S. employer identification number)

301 Commercial Road, Unit D, Golden, CO 80401
(Address of principal executive offices) (Zip code)

(303) 386-7104
(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☑	Smaller reporting company	☑
		Emerging growth company	☐

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of November 9, 2018, the registrant had 75,860,641 shares of common stock outstanding.

UNITED CANNABIS CORPORATION

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNITED CANNABIS CORPORATION
CONSOLIDATED BALANCE SHEETS

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 275,233	$ 825,645
Accounts receivable, net	80,249	—
Inventory	2,662,451	43,200
Due from related parties	103,402	—
Other current assets	49,360	23,028
Total current assets	3,170,695	891,873
Construction in progress	961,527	832,697
Property, plant and equipment, net	1,922,496	199,821
Granted patents, net	134,301	139,638
Intangible assets	264,769	170,519
Other assets	71,576	—
Goodwill	4,838,603	4,838,603
Total assets	$ 11,363,967	$ 7,073,151
LIABILITIES & STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 582,117	$ 371,711
Accrued expenses	34,413	10,184
Installment loan payable	64,278	46,667
Deferred revenue	68,750	180,000
Accrued wages payable to officers and directors	—	310,401
Notes payable for advances from and prior wages payable to officers and directors	1,125,892	261,348
Convertible notes payable, net	283,861	—
Arbitration and litigation reserve	650,000	—
Total current liabilities	2,809,311	1,180,311
Long term liabilities:		
Deferred revenue, net of current portion	—	23,750
Total liabilities	2,809,311	1,204,061
COMMITMENTS AND CONTINGENCIES – Note 19		
STOCKHOLDERS' EQUITY		
Preferred stock, 10,000,000 shares authorized; 2,000 Series A shares outstanding at September 30, 2018 and December 31, 2017, respectively	2,200	2,200
Common stock, 100,000,000 shares authorized; 74,180,490 and 62,862,066 shares outstanding as of September 30, 2018 and December 31, 2017, respectively	44,943,406	21,186,888
Accumulated deficit	(36,218,959)	(15,269,845)
Total equity (deficit) attributable to stockholders of the Company	8,726,647	5,919,243
Non-controlling interest (deficit)	(171,991)	(50,153)
Total stockholders' equity	8,554,656	5,869,090
Total liabilities and stockholders' equity	$ 11,363,967	$ 7,073,151

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues				
Product revenues	$ 2,099,591	$ 12,627	$ 4,026,298	$ 142,685
Licensing fees	32,712	45,000	135,000	135,000
Revenues, affiliate	—	45,033	99,103	178,785
Total revenues	2,132,303	102,660	4,260,401	456,470
Cost of revenues	(1,567,031)	(26,226)	(3,079,442)	(238,227)
Gross Profit	565,272	76,434	1,180,959	218,243
Operating expenses				
Marketing, advertising and new business development	143,083	39,728	170,104	132,493
Research and development	257,658	40,611	735,883	90,006
Legal, accounting, consulting and public reporting	287,959	181,052	930,784	637,252
General and administrative	1,152,822	461,990	3,218,804	1,020,041
Share-based expense for stock options granted to officers, directors and employees	179,018	—	14,689,497	1,624,000
Total operating expenses	2,020,540	723,381	19,745,072	3,503,792
Loss from operations	(1,455,268)	(646,947)	(18,564,113)	(3,285,549)
Other income and costs and expenses				
Loss on extinguishment of debt	—	—	—	(267,567)
Interest expense	(121,162)	(6,759)	(172,265)	(54,432)
Loss on issuance of common stock	(939,229)	—	(1,867,830)	—
Loss on conversion of convertible note	(466,744)	—	(466,744)	—
Loss on settlement of dispute	—	—	—	(122,139)
Loss before provision for taxes on income	(2,982,403)	(653,706)	(21,070,952)	(3,729,687)
Provision for taxes on income	—	—	—	—
Net Income (Loss)	(2,982,403)	(653,706)	(21,070,952)	(3,729,687)
Loss attributable to non-controlling interests	37,538	80,914	121,837	242,146
Net (Loss) attributable to common shareholders	$ (2,944,865)	$ (572,792)	$ (20,949,115)	$ (3,487,541)
Basic loss per common share	$ (0.04)	$ (0.01)	$ (0.31)	$ (0.07)
Basic and fully diluted weighted average number of shares outstanding	70,818,495	44,925,837	66,626,106	54,170,003

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Operating activities:		
Net loss	$ (21,070,952)	$ (3,729,687)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of debt discount	22,042	34,453
Depreciation and amortization	264,445	26,299
Share-based compensation	15,238,156	2,117,302
Loss on issuance of common stock	1,867,830	—
Loss on conversion of convertible note	466,744	—
Loss on extinguishment of debt and repurchase of warrants	—	248,892
Loss on settlement of dispute	—	122,139
Changes in operating assets and liabilities:		
Accounts receivable	(80,249)	(1,216)
Due from related parties	(103,402)	(10,508)
Other current assets	(26,332)	—
Accounts payable and accrued expenses	326,610	23.271
Deferred revenue	(135,000)	(135,000)
Accrued wages payable to officers and directors	—	302,889
Net cash used in operating activities	**(3,230,108)**	**(1,001,166)**
Investing activities:		
Cash acquired upon acquisition of subsidiary	—	347,307
Purchase of inventory	(2,033,898)	(36,098)
Purchase of equipment and improvements to cultivation facilities	(2,619,251)	(261,560)
Purchase of intangible assets	(94,250)	(125,858)
Deposits and return of deposit	(71,576)	(32,500)
Cash portion of settlement of dispute	—	(20,000)
Net cash used in investing activities	(4,818,975)	(128,709)
Financing activities:		
Proceeds from issuance of common stock – equity financing line	5,390,049	1,380,204
Proceeds from convertible notes	845,000	—
Proceeds from proposed joint venture that was never formed – litigation reserve	650,000	—
Proceeds from advances from officers and directors	554,143	254,943
Proceeds from sale of common stock	118,583	64,804
Repayment of convertible debt and notes payable	—	(35,000)
Payments on installment loans	(59,104)	—
Net cash provided by financing activities	7,498,671	1,664,951
Net increase (decrease) in cash	(550,412)	535,076
Cash, beginning of period	825,645	112,621
Cash, end of period	**$ 275,233**	**$ 647,697**

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Supplemental schedule of cash flow information:		
Cash paid for interest	$ —	$ —
Cash paid for income taxes	$ —	$ —
Supplemental disclosure of non-cash investing and financing activities:		
Acquisition from and leaseback to of equipment to related party	$ —	$ 99,200
Common shares issued in the acquisition of Prana Therapeutics, Inc.	$ —	$ 4,870,500
Conversion to notes payable for advance from officer and directors	$ 310,401	$ —
Exercise of stock option for 1,000,000 of common stock in exchange for notes payable to an officer and director	$ —	$ 200,000

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

NOTE 1 –BUSINESS ORGANIZATION AND NATURE OF OPERATIONS

United Cannabis Corporation ("we", "our", "us", "UCANN", or "the Company") a Colorado corporation, was originally formed as a California corporation under the name MySkin, Inc. on November 15, 2007. MySkin was engaged in the business of providing management services to a medical spa in Los Angeles, California which provided various advanced skin care services until March 31, 2014, when this business was sold to the prior President of the Company.

In early 2014 we decided to exit the medical spa management business and change our focus to providing products, services and intellectual property to the cannabis industry.

On March 26, 2014, we entered into a License Agreement with Earnest Blackmon, Tony Verzura and Chad Ruby pursuant to which Messrs. Blackmon, Verzura and Ruby licensed certain intellectual property to us in exchange for a total of 38,690,000 shares of our common stock.

In connection with this transaction:

- Messrs. Blackmon, Verzura and Ruby licensed to us all of their knowledge and know-how relating to the design and buildout of cultivation facilities, growing/cultivation systems, seed-to-sale protocols and procedures, products, a genetic catalogue with over 150 different strains, an advanced (non-psychoactive) cannabinoid therapy program called "A.C.T. Now", security, regulatory compliance, and other methods and processes which relate to the cannabis industry.

- The territory for this license is the entire world and the license runs in perpetuity. There are no royalty payments under the License Agreement.

- Messrs. Blackmon, Verzura and Ruby were appointed to our board of directors effective April 7, 2014.

- Mr. Blackmon was elected as our President, Mr. Ruby was elected as Chief Operating Officer and Mr. Verzura was elected as Vice President.

- A total of 41,690,000 previously outstanding shares of common stock were cancelled resulting in a total of 43,620,000 shares of common stock outstanding on March 26, 2014.

UCANN was formed as a Colorado corporation on March 25, 2014, and on May 2, 2014, MySkin, Inc. merged into UCANN, a wholly-owned subsidiary of MySkin, Inc., for the purpose of changing domicile from California to Colorado and changing the corporation's name to United Cannabis Corporation.

On March 31, 2014, we sold all right, title and interest in the tangible and intangible assets, trademarks, customer lists, intellectual property and rights, which we owned and were related to our advanced skin care business since we entered into a new business and no longer had any use for these assets. The assets were sold to MySkin Services, Inc. ("MTA"), a business partly owned by Marichelle Stoppenhagen, our former officer and director, in exchange for the $15,000 payable which we owed to Ms. Stoppenhagen and/or MTA. In addition, MTA assumed all costs associated with these assets starting on March 31, 2014.

On July 14, 2017, we completed the acquisition of Prana Therapeutics, Inc. ("PTI") by exchanging 5,730,000 shares of common stock of the Company for 5,730,000 shares of the common stock of PTI. The purchase price had a fair market value of $5,070,500, based upon the closing price of $0.85 per share on the OTC QB Market on July 14, 2017, including the cost to purchase 400,000 shares of PTI common stock for $200,000. PTI is a polymolecular botanical drug development company focused on developing targeted therapeutics for prevention of the negative side effects of chemotherapy, management of rheumatoid arthritis and treatment of brain cancer. Management elected to purchase PTI, because of the successful indication of the effectiveness of PTI's Epidiferphane™ chemical formulation in the treatment of (i) the negative side effects of chemotherapy, (ii) inflammation and pain associated with arthritis and back-centric pain, and (iii)the potential shrinkage of cancerous tumors.

On August 3, 2018, PTI received notice that its licensed flagship product, EDP™, received approval on an Investigational New Drug application from the FDA for a clinical investigation for breast cancer. The clinical investigation will include a dose escalation, safety, tolerability, pharmacokinetic, and efficacy trial. Phase 1 will test the potential toxicity of EDP™ at two targeted dosages and measures safety levels, side effects, optimal dosage, and formulation. Phase 2 will focus on whether or not EDP™ passes efficacy evaluations by reducing side effects of chemotherapy in patients.

Recently, we elected to focus a significant portion of our assets, human resources and financial capital on the manufacturing and selling of a variety of cannabidiol centric products derived from industrial hemp plants. We constructed a state-of-the-art extraction facility; and, hired and trained specialized extraction personnel and laboratory technicians that enable us to convert components of industrial hemp flower to finished CBD products. In order to help provide a consistent supply of industrial hemp flower for our extraction facility, we purchased farming equipment and leased hundreds of acres of farm land on which we are growing a crop of industrial hemp . It is our intent to grow at least one crop of industrial hemp plants per calendar year and to harvest a sufficient amount of industrial hemp flower from our crop to supply our extraction facility on a vertically integrated basis. As of September 30, 2018, we have expended approximately $2,800,000 on facilities, farm equipment and crop planting and cultivation, as a result of electing to vertically integrate the hemp centric portion of our business.

Government Regulation - Marijuana is a Schedule-I controlled substance and is illegal under federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal laws. As of September 30, 2018, 30 states and the District of Columbia allow their citizens to use medical marijuana, and voters in the states of California, Colorado, Washington, Nevada, Oregon, Alaska, Maine, Massachusetts, Vermont and the District of Columbia have approved ballot measures to legalize cannabis for adult recreational use. The state laws are in conflict with the federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. The former Obama administration had effectively stated that it was not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical and recreational marijuana under what colloquially became known as the "Cole memo". However, on January 4, 2018, Attorney General Jeffery Sessions rescinded the "Cole memo," and issued a new memo in its place that reaffirms the Department of Justice's stance of potentially prosecuting violators of federal marijuana laws. On April 13, 2018, President Trump pledged to support federalism-based legislation regarding marijuana and promised not to pursue federal prosecution despite the Attorney General's actions. It appears that the current administration will not elect to vigorously enforce federal laws, but such future enforcement may cause significant financial damage to us.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation – Our consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries UCANN California Corporation, UC Colorado Corporation and UC Oregon Corporation, the ninety-five percent (95%) owned subsidiary Prana Therapeutics, Inc. ("PTI"), and the fifty percent (50%) owned subsidiary Cannabinoid Research & Development Company Limited ("CRD"). All intercompany accounts and transactions of our subsidiaries have been eliminated. Our consolidated financial statements are stated in United States dollars and have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

At March 31, 2017, we concluded that we had established a variable interest entity relationship with CRD, because we are the primary beneficiary, in accordance with GAAP. As a result, we elected to consolidate the assets and liabilities of CRD in our consolidated balance sheet at March 31, 2017. PTI was purchased on July 14, 2017, and its assets and liabilities are included in the consolidated balance sheets at December 31, 2017, and their results of operations are included in the consolidated financial statements for the period of September 30, 2017, which is the nearest quarter end to the purchase date, through December 31, 2017.

Use of Estimates – The preparation of our consolidated financial statements in conformity with U.S. GAAP requires us to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of our consolidated financial statements and the reported amounts of revenues and expenses during the periods presented.

We make our estimate of the ultimate outcome for these items based on historical trends and other information available when our consolidated financial statements are prepared. We recognize changes in estimates in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available. We believe that our significant estimates, assumptions and judgments are reasonable, based upon information available at the time they were made. Our actual results could differ from these estimates, making it possible that a change in these estimates could occur in the near term.

Fair Value of Financial Instruments – Our financial instruments consist principally of cash and cash equivalents, accounts receivable, non-marketable equity securities, accounts payable, notes payable and other current assets and liabilities. We value our financial assets and liabilities using fair value measurements. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The carrying amount of our cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities in our consolidated financial statements approximates fair value because of the short-term nature of the instruments. Investments in non-marketable equity securities are carried at cost less other-than-temporary impairments. The carrying amount of our notes payable and convertible debt at September 30, 2018, approximates their fair values based on our incremental borrowing rates.

There have been no changes in Level 1, Level 2, and Level 3 categorizations and no changes in valuation techniques for these assets or liabilities for the nine-month period ended September 30, 2018 and the year ended December 31, 2017.

Cash and Cash Equivalents – We consider investments with original maturities of 90 days or less to be cash equivalents.

Accounts Receivable, Net – Our accounts receivable consists primarily of trade accounts arising in the normal course of business. No interest is charged on past due accounts. Accounts for which no payments have been received after 30 days are considered delinquent and customary collection efforts are initiated. Accounts receivable are carried at original invoice amount less a reserve made for doubtful accounts based on a review of all outstanding amounts on a monthly basis. We determine our allowance for doubtful accounts by regularly evaluating individual customer receivables and considering the customer's financial condition and credit history, and current economic conditions. We recorded no bad debt expense during the nine-month period ended September 30, 2018 and 2017, and we have no allowance for doubtful accounts as of September 30, 2018 or December 31, 2017.

Inventory – Inventory is stated at the lower of cost or net realizable value using the last-in-first-out method. Included in inventory is our industrial hemp crop under cultivation on farm acreage leased by us. The cost of the industrial hemp crop under cultivation is determined based upon costs to purchase industrial hemp seed and industrial hemp cuttings, plus farm labor, fertilizer, water and power, and the cost to harvest and store the industrial hemp crop. The costs of planting, cultivating and harvesting our industrial hemp crop are capitalized to industrial hemp crop under cultivation, when incurred. The cost of farming equipment is amortized and depreciated to operating expense on a straight-line basis and is not capitalized as a component of industrial hemp crop. Upon completion of harvesting the industrial hemp crop, all incurred applicable costs are classified as raw materials. The cost of the raw materials inventory includes the cost of the industrial hemp crop plus the cost to purchase industrial hemp biomass from independent brokers and industrial hemp farmers. The cost of finished goods includes the cost of raw materials plus costs for labor, processing costs, packaging and the allocated costs of our facilities infrastructure. The cost of finished goods also includes the cost of purchasing manufactured products from independent processors. We recognize inventory costs as a charge to cost of revenues based upon an average cost per unit sold. We periodically review the value of our inventory and provide a write-down of inventory based on our assessment of the market conditions. Any write-down is charged to cost of revenues.

Property, Plant and Equipment, net – Our property and equipment is recorded at cost. Maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over estimated useful lives of three to five years, and amortization is computed using the straight-line method over the life of the applicable lease. At the time of retirement or other disposition of property and equipment, the cost and accumulated depreciation are removed from our accounts and any resulting gain or loss is reflected in our consolidated statements of operations.

Granted Patents, Net – Our patent was granted by the United States Patent and Trademark Office on August 15, 2017. The patent covers the extraction of pharmaceutically active components from cannabis plant materials, for incorporation into medicines. The cost of the patents is being amortized on the straight-line method over a 15-year period.

Intangible Assets – Our intangible assets, consisting of applications for trademarks, design mark and provisional patents, are recorded at cost, and once approved, will be amortized using the straight-line method over an estimated useful life of 10 to 15 years.

Long-Lived Assets Impairment Assessment – Our intangible assets and other long-lived assets are subject to an impairment test if there is an indicator of impairment. The carrying value and ultimate realization of these assets is dependent upon our estimates of future earnings and benefits that we expect to generate from their use. If our expectations of future results and cash flows are significantly diminished, intangible assets and other long-lived assets may be impaired and the resulting charge to operations may be material. When we determine that the carrying value of intangibles or other long-lived assets may not be recoverable based upon the existence of one or more indicators of impairment, we use the projected undiscounted cash flow method to determine whether an impairment exists, and then measure the impairment using discounted cash flows.

We have not recorded any impairment charges related to long-lived assets as of September 30, 2018 or December 31, 2017.

Goodwill – Our goodwill, which consists of our interest in a ninety-five percent owned subsidiary, Prana Therapeutics, Inc. ("PTI") and a fifty percent owned subsidiary, Cannabinoid Research & Development Company Limited ("CRD"), is not amortized, but is evaluated for impairment annually, or when indicators of a potential impairment are present. The annual evaluation for impairment of goodwill is based on valuation models that incorporate assumptions and internal projections of expected future cash flows and operating plans. We believe such assumptions are also comparable to those that would be used by other marketplace participants. Our total goodwill of $4,838,603 consists of $4,731,729 for PTI and $106,874 for CRD at September 30, 2018. See Note 7 – Purchase of Prana Therapeutics, Inc.

Purchase Price Allocation – The acquisition method of accounting is based on ASC Subtopic 805-10, "*Business Combinations*," and uses the fair value concepts defined in ASC Subtopic 820-10, "*Fair Value Measurements and Disclosures*". The price for the purchase of Prana Therapeutics, Inc., was allocated to the net tangible and intangible assets based upon their fair values as of the acquisition date, July 14, 2017. The allocation of the purchase price of $5,070,500 was based upon a valuation and the estimates and assumptions are subject to change within the measurement period. The excess of the purchase price over the fair values of the net tangible assets and intangible assets was recorded as goodwill in the amount of $4,731,729 and is generally driven by our expectations of our ability to commercialize the several drugs invented by Prana Therapeutics, Inc. See Note 8 – Purchase of Prana Therapeutics, Inc.

Deferred Revenue – We defer revenue for which product or service has not yet been delivered or is subject to refund until such time that we and our customer jointly determine that the product or service has been delivered or no refund will be required.

Revenue Recognition – We recognize revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers,* which requires that five basic steps be followed to recognize revenue: (1) a legally enforceable contract that meets criterial standards as to composition and substance is identified; (2) performance obligations relating to provision of goods or services to the customer are identified; (3) the transaction price, with consideration given to any variable, noncash, or other relevant consideration, is determined; (4) the transaction price is allocated to the performance obligations; and (5) revenue is recognized when control of goods or services is transferred to the customer with consideration given, whether that control happens over time or not. Determination of criteria (3) and (4) are based on our management's judgments regarding the fixed nature of the selling prices of the products and services delivered and the collectability of those amounts. There was no material impact to our revenue recognition process because of the implementation of FASB ASC 606 as of September 30, 2018.

Revenue from product sales is recognized when an order has been obtained, the price is fixed and determinable, the product is shipped, title has transferred, and collectability is reasonably assured.

Revenue Recognition – Affiliate – We have licensed our *Prana* products to Advesa, Inc. ("Advesa"), which is controlled by one of our major shareholders. Advesa has an exclusive right for five (5) consecutive one (1) year periods to sell our *Prana* products in certain cities in the state of California. In consideration for the exclusive license granted to Advesa under the agreement, Advesa is obligated to pay us a royalty on all *Prana* products sold by Advesa equal to 20% of the wholesale gross sale price of the *Prana* products. We recognize revenue on all *Prana* sales consistent with the criteria described above for all sales in accordance with ASC 606, *Revenue from Contracts with Customers.*

We have licensed *Prana Hemp* to NutriMed, LLC ("NutriMed"), which is controlled by two of our major shareholders, one of our officers and a consultant to the Company. NutriMed has a non-exclusive right to sell *Prana Hemp* in certain situations where the sale is to be completed through the use of a credit card associated with a merchant account owned and/or controlled by NutriMed. In consideration for the non-exclusive license granted to NutriMed under the agreement, NutriMed is obligated to pay us a royalty on all *Prana Hemp* products sold by NutriMed equal to 20% of the wholesale gross sale price of the *Prana Hemp* products. We recognize revenue on all *Prana Hemp* sales consistent with the criteria described above for all sales in accordance with ASC 606, *Revenue from Contracts with Customers.*

Cost of Revenues – Our policy is to recognize cost of revenues in the same manner as, and in conjunction with, revenue recognition. Our cost of revenues includes the costs directly attributable to revenue recognized and includes expenses related to the production, packaging and labeling of our Prana medicinal products; personnel-related costs, fees for third-party services, travel and other consulting costs related to our advisory services; direct material and labor costs related to the production of CBD isolate extracted in our extraction facility; and direct labor, equipment, machinery, tools, supplies, seed and fertilizers, and other agricultural expenses attributable to the farming and harvesting of raw industrial hemp plant material.

Research and Development Expenses – Research and development ("R&D") costs are charged to expense as incurred. Our R&D expenses include, but are not limited to, consulting service fees and materials and supplies used in the development of our proprietary products and services.

General and Administrative Expenses – General and administrative expenses consist primarily of personnel-related costs, fees for professional and consulting services, travel costs, rent, bad debt expense, general corporate costs, and other costs of administration such as human resources, finance and administrative roles.

Stock-Based Compensation – We periodically issue shares of our common stock to non-employees in non-capital raising transactions for fees and services. We account for stock issued to non-employees in accordance with ASC 505, *Equity*, whereas the value of the stock compensation is based upon the measurement date as determined at either (a) the date at which a performance commitment is reached, or (b) at the date at which the necessary performance to earn the equity instruments is complete.

We account for stock option grants issued and vesting to employees based on ASC 718, *Compensation – Stock Compensation*, whereas the award is measured at its fair value at the date of grant and is amortized ratably over the vesting period. Accounting for stock-based compensation to employees requires the measurement and recognition of compensation expense for all share-based payment awards made to employees based on estimated fair values. We estimate the fair value of all stock option awards on the date of grant using the Black-Scholes-Merton pricing model, which is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee option exercise behaviors, risk free interest rates and expected dividends. We also estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from our estimates.

Income Taxes – Income taxes are recorded using the asset and liability method. Under the asset and liability method, tax assets and liabilities are recognized for the tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment occurs. To the extent that we do not consider it more likely than not that a future tax asset will be recovered, we will provide a valuation allowance against the excess.

We follow the provisions of ASC 740, *Income Taxes*. Because of ASC 740, we make a comprehensive review of our portfolio of tax positions in accordance with recognition standards established by ASC 740. As a result of the implementation of ASC 740, we recognized no material adjustments to liabilities or stockholders' deficit.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in our consolidated financial statements in the period during which, based on all available evidence, we believe it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits, if any, are classified as interest expense and penalties and are included in selling, general and administrative expenses in our consolidated statements of operations.

On December 22, 2017, the U.S. Tax Cuts and Jobs Act was enacted. U.S. tax reform introduced many changes, including lowering the U.S. corporate tax rate to 21 percent, changes in incentives, provisions to prevent U.S. base erosion and significant changes in the taxation of international income, including provisions which allow for the repatriation of foreign earnings without U.S. tax. The enactment of U.S. tax reform had no impact on our income taxes for the year ended year-ended December 31, 2017 or the nine months ended September 30, 2018.

Commitments and Contingencies – Certain conditions may exist as of the date our consolidated financial statements are issued, which may result in a loss but which will only be resolved when one or more future events occur or fail to occur. We assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against us or unasserted claims that may result in such proceedings, we evaluate the perceived merits of the legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in our consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

Net Loss Per Share – We compute net loss per share in accordance with ASC 260, *Earnings per Share*. Under the provisions of ASC 260, basic net loss per share includes no dilution and is computed by dividing the net loss available to common stockholders for the period by the weighted average number of shares of common stock outstanding during the period. Diluted net loss per share takes into consideration shares of common stock outstanding (computed under basic net loss per share) and potentially dilutive securities that are not anti-dilutive.

Potentially dilutive securities outlined in the table below have been excluded from the computation of diluted net loss per share, because the effect of their inclusion would have been anti-dilutive.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Warrants to purchase common stock	1,271,530	1,424,112	1,284,031	1,424,112
Stock options	25,080,000	6,580,000	25,080,000	6,580,000
	26,351,530	8,004,112	26,364,031	8,004,112

Other Comprehensive Income (Loss) – We report as other comprehensive income (loss) those revenues, gains and losses not included in the determination of net income. During the nine months ended September 30, 2018 and the year ended December 31, 2017, we did not have any gains or losses resulting from activities or transactions that resulted in other comprehensive income or loss.

Concentration of Credit Risk – Financial instruments that potentially subject us to credit risk consist of cash. We maintain our cash with high credit quality financial institutions; at times, such balances with any one financial institution may not be insured by the FDIC.

Recently Issued Accounting Pronouncements – From time to time, the FASB or other standards setting bodies issue new accounting pronouncements. Updates to the FASB ASCs are communicated through issuance of an Accounting Standards Update ("ASU"). Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our condensed consolidated financial statements upon adoption.

In February 2016, the FASB issued guidance on leases which requires entities to recognize right-of-use assets and lease liabilities on the balance sheet for the rights and obligations created by all leases, including operating leases, with terms of more than 12 months. The new guidance also requires additional disclosures on the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative information. The new guidance will be effective for us at the beginning of fiscal year 2019. Early adoption is permitted. We are in the process of evaluating the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures.

In June 2018, the FASB issued updated guidance on accounting for nonemployee share-based award payments granted to acquire goods and services to be used or consumed in the grantor’s own operations. This guidance does not apply in the case that the share-based payment was made to provide financing to the issuer, or in the case that the awards are made in conjunction with selling goods and services to customer under a contract accounted for under Topic 606 – Revenue from Contracts with Customers. The stated objectives of this update are part of FASB’s simplification Initiative, and provisions affecting publicly held companies include simplifying (1) the method that nonemployee share-based awards are measured; (2) the method used to arrive at the measurement date; (3) accounting for share-based awards with performance conditions; and (4) the classification reassessment of share-base awards in certain situations. The new guidance will be effective for us at the beginning of fiscal year 2019. Early adoption is permitted. We are in the process of evaluating the impact the adoption of this guidance will have on our consolidated financial statements and related disclosures.

Reclassification – Certain reclassifications have been made to the prior period amounts to conform to the current period's presentation.

NOTE 3 – GOING CONCERN

Our consolidated financial statements have been prepared on a going concern basis which assumes we will be able to realize our assets and discharge our liabilities in the normal course of business for the foreseeable future. During the nine-months ended September 30, 2018, we incurred losses of $21,070,952, used cash of $3,230,108 in our operating activities and had an accumulated deficit of $36,218,959 at September 30, 2018. Our ability to continue as a going concern is dependent upon our ability to generate profitable operations in the future and, or, obtaining the necessary financing to meet our obligations and repay our liabilities arising from normal business operations when they come due. There is no assurance that these events will be satisfactorily completed.

NOTE 4 – DUE FROM RELATED PARTIES

Amounts due from related from related parties include the following:

	September 30, 2018	December 31, 2017
Advesa, Inc.	$ 44,402	$ —
NutriMed, LLC	59,000	—
	$ 103,402	$ —

In the normal course of business, we make non-interest-bearing advances to Advesa, Inc. ("Advesa'), which is controlled by one of our officers and directors, and we receive licensing fees from the sale of products licensed to Advesa by the Company.

In the normal course of business, we sell products to NutriMed, LLC, which is controlled by two of our officers and directors. The products that we sell to NutriMed, LLC are at a price equivalent to the whole sale price that we charged to unrelated, third party distributors.

NOTE 5 – OPERATING LEASES

Administrative Offices and Industrial Hemp Laboratory – Golden, Colorado

Effective August 1, 2017, we entered into a triple net lease for approximately 9,882 square feet of commercial space in Golden, Colorado in which our administrative offices and industrial hemp laboratory are located. The lease expires on July 31, 2020 and has no option for renewal. Basic rent is $3,302, $3,500 and $3,800 per month through, July 31, 2018, 2019 and 2020, respectively, plus we are responsible for all utilities.

Extraction and Cultivation Facility – Weldona, Colorado

Effective October 1, 2017, we entered into a triple net lease for approximately 40,000 square feet of industrial space located on five (5) acres of land in Weldona, Colorado that we use as our industrial hemp extraction facility and industrial hemp cultivation center. The lease expires on September 31, 2018, with an annual option to renew the lease on an annual basis, until September 30, 2022. The rent is $7,500 per month throughout the term of the lease, plus we are responsible for all utilities.

Extraction and Cultivation Facility – Mead, Colorado

Effective September 1, 2018, we entered into a triple net lease for approximately 14,300 square feet of industrial space located in Mead, Colorado that we use as an industrial hemp extraction facility. The term of the lease expires on August 31, 2023. The rent is $12,596 per month throughout the term of the lease, plus we are responsible for all utilities.

Extraction and Cultivation Facility – Jamaica

Our fifty percent (50%) owned subsidiary Cannabinoid Research & Development Company Limited ("CRD") leases approximately 28 acres of land upon which their cultivation and extraction facility is located near Kingston, Jamaica. The land is leased for $1 per year from the father of one of the directors and members of CRD.

Future minimum payments for these leases are:

For the twelve Months Ending September 30,				
2019	2020	2021	2022	2023
$283,753	$279,150	$241,153	$241,153	$158,365

NOTE 6 – INVENTORY

At September 30, 2018 and December 31, 2017, our inventory is, as follows:

	September 30, 2018	December 31, 2017
Raw materials	$ 2,511,396	$ 15,000
Work-in-process	49,735	—
Finished goods	101,320	28,200
	$ 2,662,451	$ 43,200

We periodically review the value of our inventory and provide a write-down of inventory based on our assessment of the market conditions. Any write-down is charged to cost of revenue sold. There have been no such write-downs during the nine-month period ended September 30, 2018 and 2017.

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT, NET

	September 30, 2018	December 31, 2017
Cost of construction in process - extraction facility		
Weldona, Colorado extraction facility:		
Equipment	$ —	$ 647,947
Mead, Colorado extraction facility		
Equipment	775,828	—
Jamaica cultivation and extraction facility:		
Leasehold improvements - laboratory	75,000	75,000
Leasehold improvements - cultivation	110,699	109,750
	$ 961,527	$ 832,697
Extraction facility, laboratory equipment, and office furniture and fixtures		
Equipment and machinery at Weldona extraction facility	$ 1,151,263	—
Golden, Colorado industrial hemp laboratory - equipment	39,944	34,651
Golden, Colorado administrative offices:		
Furniture and fixtures	49,282	21,668
Leasehold improvements	209,796	2,000
Transportation equipment	234,964	81,667
Remote laboratory equipment	99,220	99,220
Farm Equipment	436,492	—
	$ 2,220,961	239,206
Accumulated amortization and depreciation	(298,465)	(39,385)
	$ 1,922,496	$ 199,821

The amount of depreciation and amortization expense for the three and nine months ended September 30, 2018 is $106,567 and $259,108, respectively. The amount of depreciation and amortization expense for the three and nine months ended September 30, 2017 was $18,449 and $25,106, respectively.

NOTE 8 – PURCHASE OF PRANA THERAPUETICS, INC.

On June 8, 2017, we entered into an agreement to purchase 400,000 shares of Prana Therapeutics, Inc. ("PTI"), for a total consideration of $200,000 ("Subscription Agreement'). In accordance with the terms of the Subscription Agreement, we paid PTI $50,000, upon execution of the Subscription Agreement, and committed to remit $50,000 to PTI on September 30, 2017, December 31, 2017 and March 31, 2018, respectively. On July 14, 2017, we completed the acquisition of PTI in an exchange of 5,730,000 shares of our common stock for 5,730,000 shares of the common stock of PTI. The purchase price had a fair market value of $5,070,500, based upon the closing price of $0.85 per share of our common stock on the OTC QB Market on July 14, 2017, including the cost to purchase 400,000 shares of PTI for $200,000.

The purchase price for PTI was allocated to the net tangible and intangible assets based upon their fair values as of the acquisition date. The excess of the purchase price over the fair values of the net tangible assets and intangible assets was recorded as goodwill and is generally driven by management's expectations and ability to realize synergies and achieve strategic growth. The allocation of the purchase price was, as follows:

	September 30, 2018
Patents	$ 52,596
Net assets	522,761
Goodwill	4,495,143
Total	$ 5,070,500

NOTE 9 – GRANTED PATENTS, NET

On August 15, 2017, the United States Patent and Trademark Office issued to the Company US Patent #9730911 (the "Patent") granting exclusive rights to its proprietary composition of matter in liquid formulations, based on compounds extracted from cannabis plant materials; more specifically the composition of matter pertaining to the use of phytocannabinoids, cannabinoids, and specific terpene profiles in liquid form. This composition of matter Patent provides protection for the Company's proprietary formulations. The Patent protects the use of suspending both phytocannabinoids and cannabinoids with specific combinations of cannabis derived terpenes in liquid forms with an array of delivery methods including capsule, sublingual, topical, oral, suppository, and vaporization. Cannabinoids referenced in the application include ratios of tetrahydrocannabinolic acid (THCa), cannabidiolic acid (CBDa), tetrahydrocannabinol (THC), cannabinol (CBN), cannabidiol (CBD), cannabichromenic acid (CBCa), and cannabichromene (CBC). At August 15, 2017, we classified the costs associated with research, legal fees, application costs incurred in the process of being granted the Patent on our consolidated balance sheet in the amount of $142,317, and we began amortizing such cost on a straight-line basis over a 15-year period. Amortization expense of the Patent is $1,779 and $5,337 for the three-months and nine-months ended September 30, 2018 and $0.0 for both the three-months and nine-months period ended September 30, 2017, respectively and accumulated amortization is $8,016 and $2,679 at September 30, 2018 and December 31, 2017, respectively.

NOTE 10 – INTANGIBLE ASSETS

Our intangible assets are comprised of the costs incurred in pursuing provisional patent applications and applications for design mark and trademarks, which have presently not been approved or issued. The costs associated with our intangible assets are amortized on a straight-line basis over estimated useful lives of 15 years for patents and 10 years for design marks and trademarks once the applications are approved. Costs associated with applications that are not approved will be expensed in the period that the application is rejected or abandoned.

NOTE 11 – INSTALLMENT LOANS PAYABLE

Installment loans payable consist of a 48-month installment loan for the purchase of a truck that is used at our extraction facility, as well as a 36-month installment loan for the purchase an SUV used for Company purposes. The outstanding balance on the 48-month installment loan was $0 and $46,667 at September 30, 2018, and December 31, 2017, respectively. The terms of the 48-month installment loan specify monthly payments of $955; however, we are making payments of $6,955 per month to pay the loan off in a nine-month period. As a result of our intentions to pay the loan off in nine months, the entire balance of the 48-month installment loan has been classified as a current liability; this installment loan was fully paid at September 30, 2018. The outstanding balance on the 36-month installment loan was $68,750 and $46,667 at September 30, 2018, and December 31, 2017, respectively. The terms of the 36-month installment loan specify monthly payments of $2,160, however, we are making payments of $6,500 per month to pay the loan off within a one-year period. As a result of our intentions to pay off the loan within one year, the entire balance of the 36-month installment loan has been classified as a current liability.

NOTE 12 – DEFERRED REVENUE

Our deferred revenue consists of:

	September 30, 2018	December 31, 2017
Current portion	$ 68,750	$ 180,000
Long term portion	—	23,750
Deferred revenue	$ 68,750	$ 203,750

On September 9, 2014, we received 1,187,500 common shares and 3,000,000 warrants to purchase common shares of WeedMD ("WMD") in exchange for future consulting services and use of our intellectual property. We recorded the $893,750 fair value of these securities as deferred revenue and we recognized $150,000 of this amount as revenue during the period July 1, 2014 through December 31, 2014, based upon our initial three-year estimate of the service period involved. Based on recent discussions with WMD, we now expect to deliver the remaining consulting services and use of our intellectual property to WMD on a relatively consistent monthly basis during the four-year period from January 1, 2015 through December 31, 2018. Accordingly, we are now recognizing $15,000 of deferred revenue per month. We recognized $90,000 of revenue applicable to this arrangement in each of the nine months ended September 30, 2018 and 2017, respectively. At September 30, 2018, we expect to recognize the remaining $68,750 WMD deferred revenue during the next twelve months, and accordingly, we have classified the $68,750 as a current liability on our consolidated balance sheets.

NOTE 13 – CONVERTIBLE NOTES PAYABLE

During the nine months ended September 30, 2018, we issued convertible promissory notes to an unaffiliated third party. The net proceeds from these notes were used for general working capital purposes. The debt discounts and deferred financing costs on the convertible promissory notes are amortized on a straight-line basis, which approximates the effective interest rate method, over the term of the note, and this amortization is included in interest expense in our consolidated statements of operations.

On September 29, 2018, we converted a $600,000 convertible note through the issuance to the lender of 1,956,522 shares of our common stock. We recognized a loss on the conversion of the $600,000 convertible note in the amount of $496,023 for the three months and nine months ended September 30, 2018.

The following table summarizes our convertible promissory notes outstanding as of September 30, 2018 and December 31, 2017:

Issue Date	Holder	Security	Maturity Date	Interest Rate	Base Conversion Rate	September 30, 2018	December 31, 2017
6-04-18	Tangiers Global	Unsecured	12-04-18	5%	Upon default, Holder may convert all or a part of the note at a rate of 70% of the average of the two lowest trading prices during 15-day period prior to Holder's election to convert	$ 288,750	$ —
					Less unamortized Discount	(4,889)	—
						$ 283,861	$ —

During the three months and nine months ended September 30, 2018, we recognized $22,042 and $38,861, respectively, of amortization of deferred financing costs, respectively. This amount is included in interest expense in our consolidated statements of operations.

NOTE 14 – NOTES PAYABLE FOR ADVANCES FROM AND PRIOR WAGES PAYABLE TO OFFICERS AND DIRECTORS

Notes payable, including accrued interest payable, to and advance from officers and directors consisted of the following:

	September 30, 2018	December 31, 2017
Notes payable to Earnie Blackmon, an officer and director	$ 816,195	$ 246,459
Note payable to Tony Verzura, an officer and director	159,833	14,889
Note payable to Chadwick Ruby, an officer and director	149,864	—
	$ 1,125,892	$ 261,348

On April 6, 2016, we borrowed $25,000 from Ernest Blackmon and $25,000 from Tony Verzura and used the proceeds to repay principal and interest applicable on our $102,000 convertible promissory note dated October 12, 2015, to JSJ Investments Inc. The loans, together with interest at 12% per year, are payable on December 30, 2016. We may prepay the loans at any time. If the loans are repaid on or before September 30, 2016, the principal amount, which is being repaid, will increase by 10%. If the loans are repaid after September 30, 2016, the principal amount, which is being repaid will increase by 15%. As of December 31, 2016, the loans were not repaid, when they were due, per the terms of the notes, and thus, the principal balance of the notes at that date was increased to $57,500 in the aggregate, with the addition to the principal balance charged to interest expense.

Historically, Messrs. Blackmon, Verzura and Ruby, who are officers and directors of the Company, have paid obligations and expenses on behalf of the Company from their own individual, personal funds. Such payments have been recorded in the consolidated balance sheets as a component of Notes payable to and advances from officers and directors. During the nine months ended September 30, 2018, Mr. Blackmon, the Chairman, Chief Executive Officer and President of the Company paid $554,143, net of reimbursements, of obligations and expenses of the Company from his own personal funds. These payments have been recorded in the consolidated balance sheets as a component of Notes payable to and advances from officers and directors.

On July 1, 2018, we elected to convert all accrued and unpaid wages owed to Messrs. Blackmon, Verzura, and Ruby in the aggregate amount of $310,408 as notes payable to them. Thus, $310,408 is classified as Notes Payable For Advances from And Prior Wages Payable to Officers and Directors on the consolidated balance sheet of the Company at September 30, 2018. Interest on the notes is at a rate of 15% for the principal amount due Mr. Blackmon, and at a rate of 12.5% for on the principal amount owed Messrs. Verzura and Ruby.

NOTE 15 – ARBITRATION AND LITIGATION RESERVE

On May 8, 2018, H2, LLC (“H2”) and the Company executed a letter of intent formalizing their intent to enter into a joint venture. The parties subsequently made monetary advances in anticipation of formalizing the joint venture through a definitive agreement. However, the joint venture was never formalized, and the letter of intent was terminated pursuant to its terms. Under the terms of the provisions in the letter of intent that survived its termination, the Company has the option to either provide H2 with 25% of the industrial hemp seeds purchased with $650,000 advanced by H2, or to refund the $650,000 advanced by H2. Pursuant to another provision in the letter of intent that survived termination, disputes are to be resolved via arbitration in Denver, Colorado. On August 10, 2018, H2 filed a lawsuit in the state of California naming the Company, as well as, naming Earnest Blackmon, our Chairman of the Board and Chief Executive Officer, and John Walsh, our Treasurer and Chief Accounting Officer. The lawsuit asserts various claims, including rescission of any purported contract or joint venture and asks for $16,500,000 in damages. Our counsel and Management believe the suit is without merit, and we will vigorously defend against the lawsuit. We filed with the court a motion to compel arbitration, and we believe the court will stay the litigation and compel arbitration.

NOTE 16 – STOCKHOLDERS' EQUITY

Preferred Stock

On July 18, 2017, the Board of Directors adopted a resolution creating a series of Preferred Shares, designated as the Series A Preferred Shares. We subsequently issued 2,000 shares of our Series A preferred stock for $2,200 to certain of our officers and to each director.

Warrants:

The following table summarizes our warrants outstanding as of September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Warrants outstanding, beginning of period	1,209,025	$ 0.21	$ 1,551,356	$ 0.18
Warrants issued to consultants	75,006	0.95	132,669	
Warrants exercised	—		(475,000)	
Warrants outstanding, end of period	1,284,031	$ 0.31	1,209,025	$ 0.21
Warrants exercisable, end of period	1,284,031	$ 0.31	1,209,025	$ 0.21

The weighted-average remaining contractual life for warrants outstanding and exercisable at September 30, 2018, is 3.63 years, and the aggregate intrinsic value of warrants outstanding and exercisable at September 30, 2018 is $0.

666,667 warrants issued during the year ended December 31, 2017 were valued utilizing the Black Scholes option pricing model and the following range of assumptions on the date of valuation:

Stock price	$ 0.16 - $2.18
Exercise price	$ 0.18
Risk free interest rate	1.01% - 1.37%
Expected term (years)	5
Expected volatility	322% - 504%
Expected dividends	0%

75,006 warrants issued during the nine months ended September 30, 2018 were valued utilizing the Black Scholes option pricing model and the following range of assumptions on the date of valuation:

Stock price	$ 0.16 - $2.18
Exercise price	$ 0.18
Risk free interest rate	1.01% - 1.37%
Expected term (years)	5
Expected volatility	322% - 504%
Expected dividends	0%

Stock Options

On February 28, 2018, we awarded 6,000,000 stock options to various employees under our 2017 Stock Incentive Plan. Of these options, 5,125,000 were fully vested at the time of grant with the remaining 875,000 vesting quarterly through December 31, 2019. The awarded options give the option holder the right to purchase shares of our common stock at $1.08 per share during the ten-year term of the option.

We calculated the fair value of each option to be approximately $0.91 per option utilizing the Black Scholes option pricing model and the following range of assumptions on the date of valuation:

Stock price	$	1.05
Exercise price	$	1.08
Risk free interest rate		2.8%
Expected term (years)		5-10
Expected volatility		197%
Expected dividends		0%

The total grant-date fair value of these options was approximately $6,146,000. Stock-based compensation expense related to these stock options included in operating expenses for the nine months ended September 30, 2018 was approximately $5,584,498.

On June 29, 2018, we awarded 14,195,000 stock options to various employees under our 2018 Stock Incentive Plan. Of these options, 13,250,000 were fully vested at the time of grant with the remaining 945,000 vesting quarterly through July 1, 2022. The awarded options give the option holder the right to purchase shares of our common stock at $0.705 per share during the ten-year term of the option.

We calculated the fair value of each option to be approximately $0.59 per option utilizing the Black Scholes option pricing model and the following range of assumptions on the date of valuation:

Stock price	$	0.71
Exercise price	$	0.95
Risk free interest rate		2.68 - 2.79%
Expected term (years)		5
Expected volatility		210% - 214%
Expected dividends		0%

The total grant-date fair value of these options was approximately $9,711,400. Stock-based compensation expense related to these stock options included in operating expenses for the nine months ended September 30, 2018 was approximately $9,104,999.

The following table summarizes our stock options outstanding as of both September 30, 2018 and December 31, 2017, respectively:

	Number of Shares	Weighted Average Remaining Life (Years)		Weighted Average Exercise Price
Stock options outstanding at January 1, 2017	3,680,000	8.9	$	0.28
Issued	3,957,500	9.9		0.64
Exercised	(1,000,000)			
Expired	—			
Stock options outstanding at December 31, 2017	6,637,500	8.7	$	0.57
Stock options exercisable at December 31. 2017	6,637,500	8.7	$	0.57
Stock options outstanding at December 31, 2017	6,637,500			
Issued	20,195,000	9.5	$	0.83
Exercised	—			
Expired	—			
Stock options outstanding at September 30, 2018	26,832,500	9.4	$	0.75
Stock options exercisable at September 30, 2018	25,080,000	9.5	$	0.74

The total price to exercise all outstanding stock options is $10,259,575. The weighted-average remaining contractual life for stock options outstanding and exercisable at September 30, 2018 is 9.2 years, and the aggregate intrinsic value of options outstanding and exercisable at September 30, 2018 is $0.75.

On July 25, 2018, we repriced the exercise price per share from $1.08 to $0.58 per share for the stock options to purchase 6,000,000 shares of our common stock that were granted on March 28, 2018 and repriced the exercise price per share from $0.705 to $0.58 per share for the stock options to purchase 14,195,000 of our common stock that were granted on June 29, 2018. No adjustment to shared-based compensation in the consolidated financial statements for the three and nine months ended September 30, 2018 was necessary as a result of the repricing of the stock options.

On August 17, 2018, we repriced the exercise price per share (i) from $0.70 to $0.43 for per share for stock options to purchase 600,000 shares of our common stock that were granted on January 1, 2015 (ii) from 0.56 to $0.43 for per share for stock options to purchase 2,900,000 shares of our common stock that were granted on January 12, 2016 (iii) from $0.92 to $0.43 for 57,500 per share for stock options to purchase 57,500 shares of our common stock that were granted on July 27, 2017 (iv) from $0.875 to $0.43 per share for stock options to purchase 1,000,000 shares of our common stock that were granted on December 8, 2017 (v) from $.058 to $0.43 per share for stock options to purchase 6,000,000 shares of our common stock that were granted on March 28, 2018 and (vi) from $0.58 to $0.43 per share for stock options to purchase 14,195,000 of our common stock that were granted on June 29, 2018. No adjustment to shared-based compensation in the consolidated financial statements for the three and nine months ended September 30, 2018 was necessary as a result of the repricing of the stock options.

NOTE 17 – SHARE-BASED COMPENSATION

We recognize share-based compensation expense in cost of revenues, sales and marketing expenses, research and development expenses, general and administrative expenses, and other income and expenses, based on the fair value of common shares issued for services. In addition, we accrue share-based compensation expense for estimated share-based awards earned during the nine months ended September 30, 2018 and 2017. Share-based compensation expense for the three months and nine months ended September 30, 2018 and 2017 is, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Options granted to officers, directors and employees	$ 179,018	$ —	$ 14,689,497	$ 1,812,456
Common stock issued for accounts payable and accrued expenses	—	22,949	—	117,509
Options granted for services	—	—	—	—
Warrants and options issued for consulting services	25,002	—	76,322	16,379
Common stock issued for services	77,164	68,984	238,637	170,958
Common stock issued as compensation to employees	42,600	—	233,700	—
	$ 323,784	$ 91,933	$ 15,238,156	$ 2,117,302

The stock options issued to officers and directors were issued under the 2018 Stock Incentive Plan, and such options were fully vested at the date of grant.

NOTE 18 – SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY

The following tables show significant concentrations in our revenues and accounts receivable for the periods indicated:

Percentage of Revenue:

	Nine Months Ended September 30,	
	2018	2017
Customer A	14%	82%
Customer B	14%	17%
Customer C	9%	1%

Percentage of Accounts Receivable:

	As of September 30, 2018	2017
Customer D	81%	0%
Customer E	18%	0%
Customer F	1%	0%

The following tables show significant concentrations in our expenses and accounts payable for the periods indicated:

Percentage of Expenses:

	Nine Months Ended September 30, 2018	2017
Vendor A	4%	13%
Vendor B	2%	6%
Vendor C	2%	4%

Percentage of Accounts Payable:

	As of September 30, 2018	2017
Vendor D	21%	72%
Vendor E	12%	13%
Vendor F	10%	6%

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Contractual Obligations and Commercial Commitments

Financing Commitment

On August 3, 2018, our 95% owned subsidiary, Prana Therapeutics, Inc. (“PTI”) received approval of an Investigational New Drug (“IND”) application from the Department of Health and Human Services’ Food and Drug Administration for a clinical investigation for breast cancer of PTI’s licensed flagship product, Epidiferphane™ (EDP™). We have committed to spend approximately $300,000 to fund phase I and phase II clinical trials in connection with the IND approval.

On January 19, 2018, we entered into an equity line of credit agreement with Tangiers Global, LLC (“Tangiers”). Under the equity line agreement, Tangiers has agreed to provide the Company with up to $10,000,000 of funding through the purchase of shares of the Company’s common stock. During the term of the agreement, the Company may deliver a put notice to Tangiers, which will specify the number of shares which the Company will sell to Tangiers. The maximum amount that the Company shall be entitled to put to Tangiers per any applicable put notice is that number of shares of our common stock up to or equal to 400% of the average of the daily trading volume of our common stock for the eight consecutive trading days immediately prior to the date of the applicable put notice. The minimum amount the Company can draw down at any one time is $5,000, and the maximum amount the Company can draw down at any one time is $1,000,000, as determined by multiplying the put amount by the average daily volume weighted average prices of our common stock for the ten (10) trading days immediately prior to the applicable put notice.

A closing will occur on the date which is no earlier than five (5) trading days following, and no later than seven (7) trading days following, the applicable put notice. On each closing date, the Company will sell, and Tangiers will purchase, the shares of the Company's common stock specified in the put notice. The amount to be paid by Tangiers on a particular closing date will be determined by multiplying the purchase price by the number of shares specified in the put notice. The purchase price is 85% of the average the two lowest volume weighted average trading prices of the Company's common stock during the pricing period applicable to the put notice. The pricing period, with respect to a particular put notice, is five consecutive trading days including, and immediately following, the delivery of a put notice to Tangiers. The Company may submit a put notice once every eight trading days, provided the closing of the previous transaction has taken place. The Company is under no obligation to submit any put notices.

As of September 30, 2018, the Company has delivered eight (8) put notices to Tangiers, and, has received $5,390,049, under the terms of the equity line of credit agreement from the sale of 8,655,711 shares of the Company's common stock to Tangiers.

Clinical Trial Agreement

Under the terms of an agreement dated November 11, 2017, we committed to pay the costs to perform clinical trials with The University of the West Indies through the Topical Metabolism Research Unit of the Caribbean Institute for Health Research located in Kingston, Jamaica, initially scheduled as follows:

- An instalment of $50,000 upon both the approval of specific protocol by the Ethics Committee of the Institutional Review Board of the Ministry of Health, Jamaica, and the execution of the clinical trial agreement, the payment of which has been charged to the cost of research and development in the Statement of Operations for the three months and nine months ended September 30, 2018,
- An instalment of $51,182 upon the enrollment of the 12th patient,
- An instalment of $51,182 after all twelve patients go through the washout period determined in the specific protocol and return for a second dose, and
- An instalment of $51,182 upon completion of the clinical trial.

Additionally, we have agreed to reimburse The University of the West Indies for care and treatment of patients suffering adverse reactions or injury sustained by a patient, as a direct result of the clinical trial.

Research Laboratory

In October 2017, our 95% owned subsidiary, Prana Therapeutics, Inc ("PTI"), entered into a research agreement with the University of Florida Trustees ("UFT"). Under the terms of the research agreement PTI committed to pay UFT $303,544 in four (4) installments, of which $75,886 is owed as of September 30, 2018.

Industrial Hemp Crop Under Cultivation

We entered into a farm lease for acreage on which the Company is growing an industrial hemp crop. The rent for the acreage under the terms of the farm lease is in an amount per acre predicated upon the total weight in pounds of industrial hemp flower harvested at a rate of $2 per pound (dry weight, after thrashing to remove seeds), with a minimum of $1,000 per acre. The rent is payable in three (3) installments; (i) one third on November 15, 2018, (ii) one third on December 31, 2018 and (iii) the remainder of all rents is payable on February 15, 2019.

Industrial Hemp Crop Under Cultivation – Transaction with and Commitment to a Related Party

Approximately 30% of the farm acreage, on which we are growing our industrial hemp crop, is contractually controlled by a joint venture, NEC Agri Services, LLC ("NEC"). Our Principal Financial Officer is one of the managing members and owners of NEC. In exchange for supplying the farm acreage along with certain farm equipment, infrastructure and our lead farmer and farm management, the Company agreed to pay NEC a stipulated dollar amount per weight in pounds of industrial hemp flower harvested on the NEC farm acreage (dry weight after thrashing for the removal of seeds), reduced by a ratable allocation per acre of total farming costs for the industrial hemp crop under cultivation. We believe the stipulated dollar amount per weight in pounds is commensurate to the fair market value that we could have received from an independent farmer and land owner.

Acquisition of Hemp Biomass

We entered into an agreement on October 2, 2018 for the purchase of industrial hemp biomass at a total purchase price of $1,152,000 to be remitted to the supplier in varying amounts through December 5, 2018.

NOTE 20 – SUBSEQUENT EVENTS

Subsequent to September 30, 2018, we received $701,400 under the terms of the equity line of credit agreement with Tangiers Global, LLC from the sale of 1,630,051 shares of our common stock to Tangiers.

On November 8, 2018, we entered into a $1.500,000 convertible note ("Note") with Tangiers Global, LLC ("Holder"). We may make draws under the terms of the Note at our discretion, and any principal and interest on draws made under the terms of the Note are due and payable on May 7, 2019. Upon any default, the Holder may convert all or a part of the note at a rate of 70% of the average of the two lowest trading prices during a 15-day period prior to Holder's election to convert.

In accordance with ASC 855-10 we have analyzed our operations subsequent to September 30, 2018 to the date these consolidated financial statements were issued, and have determined that, other than as disclosed above, we do not have any material subsequent events to disclose in these consolidated financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Certain statements set forth below under this caption constitute forward-looking statements.

You should read the following discussion and analysis of financial condition and results of operations in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Report.

Overview

We were originally formed as a California corporation under the name MySkin, Inc. on November 15, 2007. MySkin was engaged in the business of providing management services to a medical spa in Los Angeles, California which provided various advanced skin care services until September 30, 2014, when this business was sold to the prior President of the Company.

Following this sale, we changed our focus to providing products, services and intellectual property to the cannabis industry.

Recently, we elected to focus a significant portion of our assets, human resources and financial capital on the manufacturing and selling of a variety of cannabidiol centric products generated from industrial hemp plants. We constructed a state-of-the-art extraction facility and hired and trained specialized extraction personnel and laboratory technicians that enables us to convert industrial hemp flower to finished CBD products. In order to help provide a consistent supply of industrial hemp flower for our extraction facility, we purchased farming equipment and leased hundreds of acres of farm land on which we are growing a crop of industrial hemp plants. It is our intent to grow at least one crop of industrial hemp plants per calendar year and to harvest a sufficient amount of industrial hemp flower from our crop to supply our extraction facility on vertically integrated basis. As of September 30, 2018, we have expended approximately $3,050,000 on facilities, farm equipment and crop planting, cultivation and harvesting, as a result of electing to vertically integrate the industrial hemp centric portion of our business.

Results of Operations

Material changes in line items in our Statement of Operations for the nine months ended September 30, 2018, as compared to the same period last year, are discussed below:

Item	Increase (I) or Decrease (D)	Reason
Revenues	I	Increase is a result of the sales of our industrial hemp products that were put in place during the nine months ended September 30, 2018. Revenues for the nine months ended September 30, 2017 are comprised for the most part of licensing fees to non-related third parties and to related parties that have no applicable cost of goods sold and do not include any revenues from the sales of our industrial hemp products.
Gross profit, as a % of revenue	D	Decreased because the cost of revenues for the nine months ended September 30, 2018 includes raw material costs and manufacturing cost for our industrial hemp products, while there were no industrial hemp products produced during the nine months ended September 30, 2017. Revenues and cost of revenues for the nine months ended September 2017 were substantially comprised of license fees to non-related third parties and to related parties that have no applicable cost of goods sold.
Operating expenses	I	Greater amounts were spent on (i) research and development, (ii) legal, accounting, consulting and public reporting, and (iii) general and administrative expenses. Share-based compensation of $15,238,156 was incurred during the nine months ended September 30, 2018, which included options granted to officers and directors and employees that were fair valued at $14,689,497, while share-based compensation for the same period last year was $1,624,000. Research and development increased $645,877 over the same period for 2017 due to the costs incurred in developing our pilot extraction facility and program.

Non-Operating expenses	I	Our other non-operating expenses were $2,506,839 and $444,138 for the nine months ended September 30, 2018 and 2017, respectively. The increase in other non-operating expenses is substantially due to $1,867,830 from losses due to discounts experienced in the issuance of common stock, compared to a $122,139 loss due to settlement of a dispute during this same period in 2017. We experienced a loss of $466,744 on the conversion of debt during the nine months ended September 30, 2018 compared to a loss of $267,567 on the extinguishment of debt incurred for the nine months ended September 30, 2017.

Material changes in line items in our Statement of Operations for the three months ended September 30, 2018, as compared to the same period last year, are discussed below:

Item	**Increase (I) or Decrease (D)**	**Reason**
Revenues	I	Increase is a result of sales from our industrial hemp product line that was not in place for the same period last year.
Gross profit, as a % of revenue	D	Decreased because the revenues for the prior year were substantially comprised of license fees to non-related third parties and to related parties that have no applicable cost of goods sold.
Operating expenses	I	Greater amounts were spent on (i) research and development, (ii) legal, accounting, consulting and public reporting, and (iii) General and administrative expenses. Share-based compensation of $323,784 was incurred during the three months ended September 30, 2018, while $91,933 of share-based compensation was incurred for the same period last year. Research and development increased $217,047 over the same period for 2017 due to the costs incurred in developing our pilot extraction facility and program. General and administrative expenses increased $690,832 for over the over the same period for 2017 due for the most part to an increased number of employees and increased occupancy costs.
Non-Operating expenses	I	Our other non-operating expenses were $1,520,376 and $6,759 for the three months ended September 30, 2018 and 2017, respectively. The increase in other non-operating expenses is substantially due to $939,229 from losses due to discounts experienced in the issuance of common stock and $480,861 on the loss on the conversation of a convertible note payable. Plus interest expense was $114,403 greater in 2018 compared to the same period for 2017.

The factors that will most significantly affect future operating results will be:

- State by state regulatory changes with respect to marijuana in the United States; and
- Rescheduling of hemp and marijuana by the federal government.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

Capital Resources and Liquidity

Our material sources and (uses) of cash during the nine months ended September 30, 2018 and the year ended December 31, 2017 were:

	2018	2017
Cash used in operations	$ (3,230,108)	$ (1,001,166)
Purchase inventory	(2,619,251)	—
Purchase of equipment and improvements to cultivation facilities	(2,033,898)	—
Purchase of intangible assets	(94,250)	(125,858)
Deposits and return of deposit	(71,576)	(32,500)
Proceeds from sale of common stock - equity financing line	5,390,049	1,380,204
Proceeds from convertible notes	845,000	—
Proceeds from a proposed joint venture that was never formed	650,000	—
Advances from officers and directors	554,143	254,943
Proceeds from the sale of common stock	118,583	64,804
Repayment of notes and convertible notes	—	(35,000)
Payments on installment loans	(59,104)	—

General

Future minimum amounts the Company is required to pay under the terms of its operating leases are, as shown below;

	2018	2019	2020	2021	2022
Cultivation and extraction facility in Weldona, Colorado	$ 22,500	$ 90,000	$ 90,000	$ 90,000	$ 67,500
Administrative offices and extraction and testing laboratory in Golden, Colorado	10,500	43,498	26,597	—	—
Cultivation and extraction facility in Jamaica	1	1	1	1	1
	$ 33,001	$ 133,499	$ 116,598	$ 90,001	$ 67,501

The future minimum payments required under the terms of our material contractual obligations are, as shown below.

	2018	2019	2020	2021	2022
Operating leases	$ 33,001	$ 133,499	$ 116,598	$ 90,001	$ 67,501
Seasonal use of farm acreage	333,333	166,667	—	—	—
Research laboratory at the University of Florida School of Medicine	77,658	—	—	—	—
Clinical trials at the West Indies School of Medicine	61,182	102,364	—	—	—
	$ 505,174	$ 402,530	$ 116,598	$ 90,001	$ 67,501

Other than as disclosed above, we do not know of any:

- trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, our liquidity increasing or decreasing in any material way; or
- any significant changes in our expected sources and uses of cash.

During the next twelve months, we anticipate that we will incur approximately $2,000,000 of salaries, wages and general and administrative expenses in order to execute our current business plan. We also expect to incur significant sales, marketing, research and development expenses during the next twelve months, and we expect to spend approximately (i) $1,500,000 on completing the cultivation and harvesting of our industrial hemp crop under cultivation, (ii) $2,000,000 on adding an additional extraction facility and expanding our existing extraction facility in Colorado, (iii) $500,000 on pursing licensing and patent applications for products developed and licensed by our 95% owned subsidiary, Prana Therapeutics, Inc., (iv) $500,000 on solidifying agreements with potential licensees who might be utilizing or want to utilize our patented formulations and processes, and (v) 750,000 on clinical research and clinical trials, including $300,000 for phase I and phase II clinical trials in connection with the approval of an Investigational New Drug application issued by the Department of Health and Human Services' Food and Drug Administration for Epidiferphane™, Prana Therapeutics, Inc.'s licensed flagship product.

Off-Balance Sheet Arrangements

None.

Significant Accounting Policies

See Note 2 to the financial statements included as part of this report for a description of our significant accounting policies.

Recent Accounting Pronouncements

From time to time, the FASB or other standards setting bodies issue new accounting pronouncements. Updates to the FASB ASCs are communicated through issuance of an Accounting Standards Update ("ASU"). Unless otherwise discussed, we believe that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on our consolidated financial statements upon adoption.

To understand the impact of recently issued guidance, whether adopted or to be adopted, please review the information provided in Note 2 to the financial statements included as part of this Report.

ITEM 4. CONTROLS AND PROCEDURES.

An evaluation was carried out under the supervision and with the participation of our management, including our Principal Executive and Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Our Principal Executive and Financial Officer concluded that our disclosure controls and proceeding were not effective since we have a material weakness in these controls due to: (i) lack of a functioning audit committee due to a lack of a majority of independent members and a lack of a majority of outside directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (ii) inadequate segregation of duties consistent with control objectives; and (iii) ineffective controls over period end financial disclosure and reporting processes. 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 our annual or interim financial statements will not be prevented or detected on a timely basis.

While we strive to segregate duties as much as practicable, there is an insufficient volume of transactions at this point in time to justify additional full-time staff. We believe that this is typical in many start-up companies. We may not be able to fully remediate our material weaknesses until we increase our operations at which time we would expect to hire more staff and consider increasing the number of directors on our board. We will continue to monitor and assess the costs and benefits of additional staffing. We have increased services and related staffing through our business and financial consulting contractor to remedy existing internal control and disclosure control deficiencies.

While we have not yet remediated these material weaknesses, we will continue our remediation efforts during fiscal 2018.

Notwithstanding the identified material weaknesses, our management believes the consolidated financial statements included in this Quarterly Report on Form 10-Q fairly represent in all material respects our financial condition, results of operations and cash flows at and for the periods presented in accordance with U.S. GAAP.

Change in Internal Control over Financial Reporting

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the United States. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance of achieving their control objectives.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter covered by this report that materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PPROCEEDING.

See Note 15 to the financial statements which are part of this report.

ITEM 5. OTHER INFORMATION.

See Note 16 to the financial statements which are part of this report.

ITEM 6. EXHIBITS.

Exhibits

31.1	Certification of Chief Executive Officer pursuant to Security Exchange Act Rule 13a-14 and 15d-14.
31.2	Certification of Chief Financial Officer pursuant to Security Exchange Act Rule 13a-14 and 15d-14.
32.1	Certification of the Company's Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	XBRL Exhibits

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNITED CANNABIS CORPORATION

Date: November 9, 2018

By: /s/ Earnest Blackmon
Earnest Blackmon
Chief Executive Officer

Date: November 9, 2018

By: /s/ John Walsh
John Walsh
Principal Financial and Accounting Officer