

**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 June 30, 2019

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

(State or other jurisdiction of incorporation or
formation)

46-5221947

(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
Non-accelerated filer

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

As of August 14, 2019, the registrant had 85,032,976 shares of common stock outstanding.

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**UNITED CANNABIS CORPORATION
UNAUDITED CONSOLIDATED BALANCE SHEETS**

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,127,296	\$ 664,570
Accounts receivable, net	8,387	171,747
Due from related parties	263,076	86,971
Inventory	1,733,262	2,552,118
Other current assets	<u>941,980</u>	<u>34,932</u>
Total current assets	4,074,001	3,510,338
Construction in process – extraction facilities	235,799	1,937,187
Cultivation facility, laboratory equipment, and office furniture and fixtures, net of accumulated amortization and depreciation of \$718,550 and \$433,148 at June 30, 2019 and December 31, 2018, respectively	4,167,055	2,119,745
Operating lease right-of-use asset	1,193,205	—
Granted patents, net of amortization of \$13,353 and \$9,795 at June 30, 2019 and December 31, 2018, respectively	128,964	132,522
Intangible assets	277,366	270,508
Other Assets	169,967	84,329
Goodwill	4,838,603	4,838,603
Total assets	<u>\$ 15,084,960</u>	<u>\$ 12,893,232</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 757,872	\$ 1,302,502
Construction contracts payable	—	888,686
Installment loans payable	44,840	57,799
Advance receipts and deferred revenue	271,340	23,750
Current portion of operating leases	408,416	—
Notes payable to officers and directors	1,150,468	1,155,436
Notes payable, net of a debt discount of \$229,417 and \$62,917 at June 30, 2019 and December 31, 2018, respectively	5,828,083	1,512,083
Arbitration reserve	650,000	650,000
Total current liabilities	<u>9,111,019</u>	<u>5,590,256</u>
Long term liabilities:		
Operating leases	<u>807,568</u>	<u>—</u>
Total liabilities	9,918,587	5,590,256
COMMITMENTS AND CONTINGENCIES – Note 19		
STOCKHOLDERS' EQUITY		
Preferred stock, 10,000,000 shares authorized; 3,000 and 2,000 Series A shares outstanding at June 30, 2019 and December 31, 2018, respectively	3,300	2,200
Common stock, 200,000,000 shares authorized; 85,032,976 and 77,466,979 outstanding at June 30, 2019 and December 31, 2018, respectively	49,783,035	46,939,646
Accumulated deficit	<u>(44,266,169)</u>	<u>(39,374,397)</u>
Total equity attributable to stockholders of the Company	5,520,166	7,567,449
Non-controlling interest (deficit)	<u>(353,793)</u>	<u>(264,473)</u>
Total stockholders' equity	5,166,373	7,302,976
Total liabilities and stockholders' equity	<u>\$ 15,084,960</u>	<u>\$ 12,893,232</u>

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues				
Product revenues	\$ 3,780,959	\$ 1,762,495	\$ 8,074,440	\$ 1,926,707
Licensing fees and consulting	11,264	57,288	66,014	102,288
Revenues, affiliate	169,240	42,039	233,390	99,103
Total revenues	3,961,463	1,861,822	8,373,844	2,128,098
Cost of revenues	(2,592,792)	(1,393,469)	(6,106,599)	(1,512,411)
Gross Profit	1,368,671	468,353	2,267,245	615,687
Operating expenses				
Marketing, advertising and new business development	57,212	9,710	96,164	27,021
Research and development	181,543	241,547	333,691	478,225
Legal, accounting, consulting and public reporting	557,300	379,579	1,189,828	642,825
General and administrative	1,746,324	1,063,636	3,402,075	2,065,982
Share-based expense for stock options granted to officers, directors and employees	124,247	9,185,275	226,035	14,510,479
Total operating expenses	2,666,626	10,879,747	5,247,793	17,724,532
Loss from operations	(1,297,955)	(10,411,394)	(2,980,548)	(17,108,845)
Other income and costs and expenses				
Loss on extinguishment of debt	(1,331,885)	—	(1,331,885)	—
Interest expense	(52,820)	(42,605)	(120,660)	(51,103)
Amortization of Debt discount	(426,433)	—	(548,000)	—
Loss on issuance of common stock	—	(372,540)	—	(928,601)
Loss before provision for taxes on income	(3,109,093)	(10,826,539)	(4,981,093)	(18,088,549)
Provision for taxes on income	—	—	—	—
Net Income (Loss)	(3,109,093)	(10,826,539)	(4,981,093)	(18,088,549)
Loss attributable to non-controlling interests	43,170	28,849	89,321	84,299
Net (Loss) attributable to common shareholders	\$ (3,065,923)	\$ (10,797,690)	\$ (4,891,772)	\$ (18,004,250)
Basic loss per common share	\$ (0.04)	\$ (0.17)	\$ (0.06)	\$ (0.28)
Basic and fully diluted weighted average number of shares outstanding	80,815,405	65,061,437	79,183,249	64,448,843

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock		Accumulated Deficit	Non-Controlling Interests	Total
	Shares	Amount	Shares	Amount			
December 31, 2017	2,000	\$ 2,200	62,862,066	\$ 21,168,888	\$ (15,269,845)	\$ (50,153)	\$ 5,869,090
Options and warrants issued to officers and directors	—	—	—	5,324,754	—	—	5,324,754
Shares issued - draws under our equity line of credit	—	—	1,285,762	1,917,176	—	—	1,917,176
Sale of common stock	—	—	65,440	76,798	—	—	76,798
Shares and warrants issued for advisory board services	—	—	30,400	56,043	—	—	56,043
Shares issued for professional services	—	—	60,000	65,885	—	—	65,885
Shares issued as compensation	—	—	32,994	42,300	—	—	42,300
Net Loss attributable to common shareholders	—	—	—	—	(7,206,560)	—	(7,206,560)
Non-Controlling Interests – Cannabinoid Research Development Limited	—	—	—	—	—	(43,097)	(43,097)
Non-Controlling Interest – Prana Therapeutics, Inc.	—	—	—	—	—	(12,353)	(12,353)
March 31, 2018	2,000	\$ 2,200	64,336,662	\$ 28,669,844	\$ (22,476,405)	\$ (105,603)	\$ 6,090,036
Options issued to officers and directors	—	—	—	9,185,275	—	—	9,185,275
Shares issued - draws under our equity line of credit	—	—	1,622,232	1,572,818	—	—	1,572,818
Adjustment of the sale of common stock	—	—	—	(15,192)	—	—	(15,192)
Shares and warrants issued for advisory board services	—	—	25,297	50,318	—	—	50,318
Shares issued for professional services	—	—	63,245	60,189	—	—	60,189
Shares issued as compensation	—	—	146,536	145,000	—	—	145,000
Net Loss attributable to common shareholders	—	—	—	—	(10,797,690)	—	(10,797,690)
Non-Controlling Interests – Cannabinoid Research Development Limited	—	—	—	—	—	(23,896)	(23,896)
Non-Controlling Interest – Prana Therapeutics, Inc.	—	—	—	—	—	(4,953)	(4,953)
June 30, 2018	2,000	\$ 2,200	66,193,972	\$ 39,668,252	\$ (33,274,095)	\$ (134,452)	\$ 6,261,905

(Continued)

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (CONTINUED)

	Preferred Stock		Common Stock		Accumulated Deficit	Non- Controlling Interest	Total
	Shares	Amount	Shares	Amount			
December 31, 2018	2,000	\$ 2,200	77,466,979	\$ 46,939,646	\$ (39,374,397)	\$ (264,473)	\$ 7,302,976
Options issued to officers and directors	—	—	—	101,788	—	—	101,788
Cancellation of preferred stock	(500)	(550)	—	—	—	—	(550)
Issuance of preferred stock to directors	1,500	1,650	—	—	—	—	1,650
Sale of common stock	—	—	52,288	23,530	—	—	23,530
Shares and warrants issued for advisory board services	—	—	57,179	34,751	—	—	34,751
Shares issued for professional services	—	—	105,000	45,010	—	—	45,010
Net Loss attributable to common shareholders	—	—	—	—	(1,825,849)	—	(1,825,849)
Non-Controlling Interests – Cannabinoid Research Development Limited	—	—	—	—	—	(38,544)	(38,544)
Non-Controlling Interest – Prana Therapeutics, Inc.	—	—	—	—	—	(7,607)	(7,607)
March 31, 2019	3,000	\$ 3,300	77,681,446	\$ 47,144,725	\$ (41,200,246)	\$ (310,624)	\$ 5,637,155
Options issued to officers and directors	—	—	—	124,247	—	—	124,247
Sale of common stock	—	—	1,200,000	320,471	—	—	320,471
Shares and warrants issued for advisory board services	—	—	62,650	34,751	—	—	34,751
Shares issued for professional services	—	—	75,000	29,928	—	—	29,928
Shares issued upon conversion of notes payable	—	—	6,013,880	2,128,913	—	—	2,128,913
Net Loss attributable to common shareholders	—	—	—	—	(3,065,923)	—	(3,065,923)
Non-Controlling Interests – Cannabinoid Research Development Limited	—	—	—	—	—	(35,023)	(35,023)
Non-Controlling Interest – Prana Therapeutics, Inc.	—	—	—	—	—	(8,146)	(8,146)
June 30, 2019	3,000	\$ 3,300	85,032,976	\$ 49,783,035	\$ (44,266,169)	\$ (353,793)	\$ 5,166,373

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

UNITED CANNABIS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operating activities:		
Net loss	\$ (4,981,093)	\$ (18,088,549)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of debt discount	548,000	16,819
Non-cash interest expense	58,722	—
Depreciation and amortization	288,960	156,098
Share-based compensation	370,475	14,914,372
Discount on issuance of shares of common stock	—	928,601
Loss on extinguishment of debt	1,331,885	—
Changes in operating assets and liabilities:		
Accounts receivable	163,359	(41,877)
Due from related party	(176,105)	(59,170)
Inventory	818,856	(1,601,016)
Accounts payable and accrued expenses, net	(517,856)	(66,684)
Prepaid purchases of raw materials and other assets	(992,686)	(1,344)
Deferred revenue	—	(90,000)
Accrued wages payable to officers, directors and employees	—	102,458
Advance receipts	247,590	—
Payment for extension of note payable	(73,750)	—
Right of use assets	22,779	—
Net cash used in operating activities	(2,890,864)	(3,830,292)
Investing activities:		
Payment of construction contracts	(888,686)	—
Purchase of equipment and improvements to cultivation and extraction facilities	(631,324)	(977,179)
Purchase of intangible assets	(6,858)	(89,050)
Net cash provided by (used in) investing activities	(1,526,868)	(1,066,229)
Financing activities:		
Net proceeds from notes payable	6,273,500	3,426,108
Payments on notes payable	(1,720,215)	—
Proceeds from sale of common shares	344,000	57,083
Proceeds from proposed joint venture that was never formed	—	650,000
Proceeds (payments) from advances from officers and directors	(3,868)	501,241
Payments on installment loans	(12,959)	(28,775)
Net cash provided by (used in) financing activities	4,880,458	4,605,657
Net increase (decrease) in cash	462,726	(290,864)
Cash, beginning of period	664,570	825,645
Cash, end of period	\$ 1,127,296	\$ 534,781
Supplemental schedule of cash flow information:		
Cash paid for interest	\$ —	\$ —
Cash paid for income taxes	\$ —	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Establishment of operating lease right of use asset	\$ 1,193,205	\$ —
Establishment of operating lease liability	\$ (1,215,984)	\$ —
Conversion of notes payable	\$ (1,050,000)	\$ —

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

UNITED CANNABIS CORPORATION
NOTES TO 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 including 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. ("Prana") in a one-for-one exchange of 5,730,000 shares of common stock of the Company for 5,730,000 of common stock of Prana. 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 exchange on July 14, 2017, including the cost to purchase 400,000 shares of Prana common stock for \$200,000. Prana 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 Prana, because of the successful indication of the effectiveness of their 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 brain tumors. 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 June 30, 2019, 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.

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2019, 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”). Our foreign subsidiary, CRD, uses U.S. dollars as their functional currency.

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 U.S. GAAP. As a result, we elected to consolidate CRD beginning March 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, 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.

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 June 30, 2019, 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 six months ended June 30, 2019 and 2018.

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 six months ended June 30, 2019 and 2018, and we have no allowance for doubtful accounts as of June 30, 2019 or December 31, 2018.

Inventory – The cost of our industrial hemp crop is stated at the lower of average cost or net realizable value based upon an average cost method, while industrial hemp biomass acquired from third parties 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 products 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 products also includes the cost of purchasing manufactured products from independent processors. 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. There have been no such write-downs during the six months ended June 30, 2019 and 2018.

Property, Plant and Equipment, net – Our property and equipment are 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.

Operating Lease Right of Use Asset and Liability - We record operating leases on our consolidated balance sheets as operating lease right-of-use asset, with the related lease liability in accordance with ASC 842. We adopted ASC 842 using a modified retrospective approach for all leases existing at January 1, 2019. Accordingly, upon adoption, leases that were classified as operating leases under ASC 840 were classified as operating leases under ASC 842, and we recorded an adjustment of \$910,315 to operating lease right-of-use assets and the related lease liability. The lease liability is based on the present value of the remaining minimum lease payments, determined under ASC 840, discounted using our secured incremental borrowing rate at the effective date of January 1, 2019, using the original lease term as the tenor. As permitted under ASC 842, we elected several practical expedients that permit us to not reassess (1) whether a contract is or contains a lease, (2) the classification of existing leases, and (3) whether previously capitalized costs continue to qualify as initial indirect costs. The application of the practical expedients did not have a significant impact on the measurement of the operating lease liability. The operating lease right-of-use asset and the related lease liability are stated on our consolidated balance sheet at June 30, 2019 in the amounts of \$1,193,205 and \$1,215,984, respectively. These amounts reflect the present value of the remaining minimum lease payments of \$908,447 recorded upon adoption of ASC 842 at January 1, 2019 for existing leases, plus the assets and liabilities attributable to leases entered into during year to date. Specifically, new leases were undertaken adding \$420,247 to the operating lease right-of-use asset and the related lease liability balances, bringing the recorded adoption amounts to \$1,328,694. Rent expense recognition and contractually-obligated cash outlay amounts reduced the asset and liability by \$135,489, and \$112,710, respectively.

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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 June 30, 2019 or December 31, 2018.

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 June 30, 2019 and December 31, 2018.

Advance Receipts and Deferred Revenue – Cash received in advance a sale or products or services have not yet been delivered or are 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 are recorded as either advance receipts or deferred revenue. Advance receipts and deferred revenues are recognized as revenue at such time that we and our customer jointly determine that the product or service has been delivered and that 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 criteria standards as to composition and substance is identified; (2) performance obligations relating to provision of products 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 an order has been obtained, the price is fixed and determinable, control of products or services is transferred to the customer with consideration given, whether that control happens over time or not, delivery has occurred and collectability is reasonably assured. 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.

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*.

UNITED CANNABIS CORPORATION
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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.

Share-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 shares issued to non-employees in accordance with ASC 718-10-30-3, whereas the cost of goods obtained or services received in exchange for awards of share-based compensation generally shall be measured on the grant-date fair value of the equity instruments issued or on the fair value of the liabilities incurred.

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 tax assets and liabilities 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.

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.

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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 six months ended June 30, 2019 or 2018, respectively.

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.

	Six Months Ended June 30,	
	2019	2018
Warrants to purchase common stock	1,359,037	1,209,025
Stock options	26,847,300	6,637,500
	28,206,337	7,846,525

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 six months ended June 30, 2019 and 2018, 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.

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

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 six months ended June 30, 2019, we incurred losses of \$4,981,093, used cash of \$2,890,864 in our operating activities, had a working capital deficit of \$5,037,018 and had an accumulated deficit of \$44,266,169 at June 30, 2019. 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

Under the terms of a sales agreement with NutriMed, LLC and a licensing agreement with Advesa, Inc., we completed sales to related parties in the aggregate amount of \$223,390 and \$14,861 for the six months ended June 30, 2019 and 2018, respectively. None of the sales to related parties for the six months ended June 30, 2019 were from royalties.

Amounts due (to) from related parties include the following:

	June 30, 2019	December 31, 2018
Advesa, Inc.	\$ (17,735)	\$ 42,349
NutriMed, LLC	280,811	44,622
	<u>\$ 263,076</u>	<u>\$ 86,971</u>

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 charge to unrelated, third party distributors.

NOTE 5 – OPERATING LEASES

Administrative Offices and Hemp Laboratory – Golden, Colorado

Effective August 1, 2017, we entered into a triple net lease of approximately 9,882 square feet of commercial space in Golden, Colorado in which our administrative offices and hemp laboratory are located. The term of 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 – Fort Morgan, Colorado

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

Extraction Facility – Mead, Colorado

Effective August 15, 2018, we entered into a triple net lease of approximately 14,300 square feet of industrial space in located in Mead, Colorado that, upon completion tenant modification and installation of extraction equipment, we will use the facility as our main extraction facility in Colorado. The initial term of the lease expires on August 31, 2019, with an annual option to renew the lease for an additional three-year period, on an annual basis. We have made a \$75,000 security deposit with the landlord in connection with the lease. The monthly lease amount for the initial lease period is \$12,596 per month and will increase annually by 3.0% or accordance with a consumer price index calculation, whichever is greater.

UNITED CANNABIS CORPORATION
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Testing Lab – Golden, Colorado

Effective November 1, 2018, we entered into a triple net lease of approximately 2,100 square feet of commercial space located in Golden, Colorado that we use as our testing laboratory. The term of the lease expires on October 31, 2020, with an option to renew for an additional two-year term exercisable prior to 90 days before the end of the initial term. The basic rent is \$2,161 and \$2,226 per month through October 31, 2019 and 2020, respectively, plus we are responsible for all utilities.

Production Lab – Golden Colorado

On April 23, 2019, we entered into a triple net lease of approximately 3,098 square feet of commercial space located in Golden, Colorado that we use as a production facility. The term of the lease expires on April 30, 2022, with no option to renew. The basic rent is \$2,788, 2,870 and \$2,959 per month through April 30, 2020, 2021 and 2020, respectively, 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 June 30,				
2020	2021	2022	2023	2024
\$470,302	\$416,906	\$393,951	\$50,028	\$1

NOTE 6 – INVENTORY

At June 30, 2019 and December 31, 2018, our inventory was, as follows:

	June 30, 2019	December 31, 2018
Raw materials	\$ 764,145	\$ 1,813,880
Work-in-process	880,942	666,845
Finished products	88,175	71,393
	\$ 1,733,262	\$ 2,552,118

NOTE 7 – PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation and amortization, at June 30, 2019 and December 31, 2018 is, as follows:

	June 30, 2019	December 31, 2018
Cost of construction in process - extraction facility		
Tennessee extraction facility		
Equipment	\$ 50,100	\$ —
Mead, Colorado extraction facility		
Equipment and leasehold improvements	\$ —	\$ 1,743,223
Jamaica cultivation and extraction facility:		
Leasehold improvements - laboratory	75,000	75,000
Leasehold improvements - cultivation	110,699	118,964
	\$ 235,799	\$ 1,937,187

UNITED CANNABIS CORPORATION
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	June 30, 2019	December 31, 2018
Extraction facility, laboratory equipment, and office furniture and fixtures		
Mead, Colorado extraction facility		
Equipment and machinery	\$ 2,400,465	\$ 1,269,734
Furniture and fixtures	77,428	64,955
Leasehold improvements	1,302,979	237,581
Transportation equipment	74,799	60,228
Farm Equipment	531,245	531,245
Golden, Colorado administrative offices:		
Furniture and fixtures	49,282	49,282
Transportation equipment	310,243	200,704
Golden, Colorado industrial hemp laboratory - equipment	39,944	39,944
Remote laboratory equipment	99,220	99,220
	<u>4,885,605</u>	<u>2,552,893</u>
Accumulated amortization and depreciation	(718,550)	(433,148)
	<u>\$ 4,167,055</u>	<u>\$ 2,119,745</u>

The amount of depreciation and amortization expense for the six months ended June 30, 2019 and 2018 is \$285,402 and \$152,428, respectively. The amount of depreciation and amortization expense for the three months ended June 30, 2019 and 2018 is \$143,167 and \$52,055, respectively.

NOTE 8 – GRANTED PATENT

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 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 our 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 of the Patent on a straight-line basis over a 15-year period. Amortization expense of the Patent is \$3,558 for the six months ended June 30, 2019 and 2018, respectively, and accumulated amortization is \$13,353 and \$9,795 at June 30, 2019 and December 31, 2018, respectively.

NOTE 9 – 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.

UNITED CANNABIS CORPORATION
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NOTE 10 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Our accounts payable and accrued expenses consists of:

	June 30, 2019	December 31, 2018
Trade accounts payable	\$ 632,706	\$ 1,163,399
Accrued wages and related expenses	99,598	126,345
Accrued interest expense	25,568	2,572
Other accrued expenses	—	10,186
Total accrued expenses	<u>\$ 757,872</u>	<u>\$ 1,302,502</u>

NOTE 11 – INSTALLMENT LOANS PAYABLE

	June 30, 2019	December 31, 2018
Installment Loans Payable	<u>\$ 44,840</u>	<u>\$ 57,799</u>

Installment loans payable consist of a 36-month installment loan for the purchase equipment used for Company purposes. The outstanding balance on the 36-month installment loan was \$44,840 and \$57,799 at June 30, 2019 and December 31, 2018, respectively. The terms of the 36-month installment loan specify monthly payments of \$2,160, however, we intend to make payments of \$6,500 per month in order 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 – ADVANCE RECEIPTS AND DEFERRED REVENUE

Our advance receipts and deferred revenue consists of:

	June 30, 2019	December 31, 2018
Deferred revenue – WeedMD	\$ —	\$ 23,750
Advance receipts – Sale of Finished Products	271,340	—
	<u>\$ 271,340</u>	<u>\$ 23,750</u>

On June 9, 2014, we received 1,187,500 common shares and 3,000,000 warrants to purchase common shares of 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. We delivered the consulting services and use of our intellectual property to WMD on a relatively consistent monthly basis during the four-year period January 1, 2015 through December 31, 2018. Accordingly, we recognized \$15,000 of deferred revenue per month during that period. We recognized \$0 and \$45,000 of revenue applicable to this arrangement in the six months ended June 30, 2019 and 2018, respectively.

Payments received in advance of the delivery of finished products purchased by customers are recognized as advanced receipts. As of June 30, 2019 and December 31, 2018, we had \$271,340 and \$0.00, respectively, a of payments received from customers prior to the delivery of the respective finished products. Delivery of the finished products was completed in early July 2019.

UNITED CANNABIS CORPORATION
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NOTE 13 – NOTES PAYABLE

On February 11, 2019 and June 7, 2019, we issued notes to an unaffiliated third party (“Holder”), in the amount of \$1,575,000 and \$10,000,000, respectively (“the Notes”). The terms of the Notes allow us to draw down on the Notes in tranches, upon our election. The proceeds of the Notes were used to purchase equipment and for general working capital purposes. The debt discount on the Notes are amortized on a straight-line basis from the issue date, 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. The Company may pay the Notes at any time prior to the maturity date, with the Holder’s consent. Until the 60th day after the date of each funding, the Company may pay the principal of the Notes, plus a premium of 10%, in addition to outstanding interest, without the Holder’s consent. From the 61st day after the date of each funding to the 120th date after the date of each funding, the Company may pay the principal of the Notes, plus a premium of 20%, in addition to outstanding interest, without the Holder’s consent. From the 121st day after the date of each funding to the 180th day after the date of each funding, the Company may pay the principal of the Notes, plus a premium of 30%, in addition to outstanding interest, without the Holder’s consent. After the Maturity Date, the Notes may only be paid with the Holder’s consent.

The Holder is entitled, at its option, at any time, after the maturity date of each funding to convert all or any part of the unpaid principal into shares of the Company’s common stock at a price per share equal to 70% of the average of the two lowest trading prices of the Company’s common stock during the 15 consecutive trading days ending on the latest complete trading day prior to the conversion date.

On May 6, 2019, we issued a note to an unaffiliated third party in the amount of \$808,500. The proceeds of the Notes were used to purchase industrial hemp biomass. The debt discount on the note is amortized on a straight-line basis from the issue date, which approximates the effective interest rate method, over the 56-day term of the note, and this amortization is included in interest expense in our consolidated statements of operations. The noteholder is entitled, at its option, at any time, after the maturity date of the note to convert all or any part of the unpaid principal into shares of the Company’s common stock at a price per share equal to 70% of the average of the two lowest trading prices of the Company’s common stock during the 15 consecutive trading days ending on the latest complete trading day prior to the conversion date.

On May 31, 2019, we issued a note to an unaffiliated third party in the amount of \$399,000. The proceeds of the Notes were used to purchase industrial hemp biomass. The debt discount on the note is amortized on a straight-line basis from the issue date, which approximates the effective interest rate method, over the 56-day term of the note, and this amortization is included in interest expense in our consolidated statements of operations. The noteholder is entitled, at its option, at any time, after the maturity date of the note to convert all or any part of the unpaid principal into shares of the Company’s common stock at a price per share equal to 70% of the average of the two lowest trading prices of the Company’s common stock during the 15 consecutive trading days ending on the latest complete trading day prior to the conversion date.

The following table summarizes our notes outstanding as of June 30, 2019 and December 31, 2018:

<u>Issue Date</u>	<u>Security</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Draws Under the Note</u>	<u>June 30, 2019</u>	<u>December 31, 2018</u>	
Note Dated November 7, 2018:							
11/05/2018	Unsecured	5/04/2019	5%	First Tranche	\$ —	\$ 525,000	
12/05/2018	Unsecured	6/03/2019	5%	Second Tranche	—	525,000	
12/26/2018	Unsecured	6/24/2019	5%	Third Tranche	—	525,000	
Note Dated February 11, 2019:							
2/11/2019	Unsecured	8/10/2019	5%	First Tranche	525,000	—	
4/08/2019	Unsecured	10/06/2019	5%	Second Tranche	650,000	—	
Note Dated June 7, 2019:							
6/07/19	Unsecured	12/04/19	5%	First Tranche	2,625,000	—	
6/21/19	Unsecured	12/18/19	5%	Second Tranche	1,050,000	—	
Note Dated March 13, 2019:							
5/06/2019	Unsecured	7/01/19	—	—	808,500	—	
Note Dated May 31, 2019:							
5/31/19	Unsecured	7/31/19	—	—	399,000	—	
					Less unamortized discount	(229,417)	(62,917)
					<u>\$ 5,828,083</u>	<u>\$ 1,512,083</u>	

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the six months ended June 30, 2019 and 2018, we recognized \$548,000 and \$16,819 of amortization of debt discounts, respectively. Additionally, we recognized \$132,223 and \$0.0 of interest expense on notes payable during the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and December 31, 2018, \$25,568 and \$2,572, respectively, of this interest is carried as accrued expenses on our consolidated balance sheets.

On June 3, 2019, we converted the second tranche of the note dated November 7, 2018 in amount of \$525,000, and on June 19, 2019 we converted the third tranche of the note dated November 7, 2018 in amount of \$525,000. In connection with the conversion of these tranches, we issued approximately 6,013,880 shares of our common stock to the Holder, and we recognized losses on the conversions in the total amount \$972,964.

On July 1, 2019, we paid off the note payable dated May 6, 2019 in the amount of \$808,500.

On July 31, 2019, we extended the note dated May 31, 2019 for an additional 90 days by agreeing to increase the discount on the note payable from \$99,000 to \$198,750.

On August 10, 2019, we paid off the first tranche of the note dated February 11, 2019 by paying the Holder \$682,500.

NOTE 14 – NOTES PAYABLE TO OFFICERS AND DIRECTORS

Notes payable to officers and directors are due on demand and consisted of the following at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Note payable to Earnie Blackmon, an officer and director	\$ 813,267	\$ 840,807
Note payable to Tony Verzura, a former officer and former director	174,482	160,247
Note payable to Chad Ruby, an office and director	162,719	154,382
	<u>\$ 1,150,468</u>	<u>\$ 1,155,436</u>

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.

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 Officers and Directors and bear interest at 12.5% to 15% per annum.

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 to officers and directors on the consolidated balance sheet of the Company at June 30, 2019 and December 31, 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.

During the six months ended June 30, 2019 and 2018, we recognized \$69,045 and \$25,953, respectively, of interest expense on notes payable to officers and directors. As of June 30, 2019 and December 31, 2018, \$178,271 and \$109,266, respectively, of accrued interest payable applicable to the notes is included in Notes payable to officers and directors on our consolidated balance sheets.

Effective March 21, 2019, Tony Verzura resigned as an officer and director of the Company.

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 Principal 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 stay the litigation against Mr. Blackmon and Mr. Walsh. On December 20, 2018, the court granted our motion and ordered H2 to arbitrate its dispute with the Company in Denver, Colorado, and stayed the litigation against Mr. Blackmon and Mr. Walsh pending the arbitration. The Company and H2 are currently in discussions regarding resolution of the dispute either via arbitration or by agreement. An arbitration hearing has been set to occur in March 2020.

On July 30, 2018, the Company filed a complaint for patent infringement and a demand for jury trial against Pure Hemp Collective Inc. (“Pure Hemp”) in the United States District Court for the District of Colorado. The Company contends that Pure Hemp has willfully and directly infringed the Company’s 9730911 Patent and seeks damages from Pure Hemp, among other relief. On October 29, 2018, Pure Hemp filed its answer, defenses and counterclaims, in which Pure Hemp contends the 9730911 Patent is not infringed by Pure Hemp and is invalid and unenforceable. Pure Hemp has also asserted a counterclaim under the Sherman Act against the Company in which it alleges the lawsuit is objectively baseless and requests the court enter an order awarding it its costs and attorneys’ fees as well as treble damages. The Company believes the Sherman Act counterclaim has no merit, and it is impossible to quantify the amount of any alleged damages allegedly suffered by Pure Hemp, or what its costs and fees in this case will be. On April 17, 2019, the Court entered an Order denying in its entirety Pure Hemp’s Early Motion for Partial Summary Judgment. In its motion, Pure Hemp had argued that the formulations claimed by the Company in the 9730911 Patent are non-patentable natural phenomena. In its Order, the Court disagreed with Pure Hemp and held that the concentrations of cannabinoids and related chemicals covered by the Patent are not natural phenomena and are patentable. Thus, the case continues in the United States District Court for the District of Colorado.

NOTE 16 – STOCKHOLDERS’ EQUITY

Preferred Stock

On July 18, 2017, the Board of Directors adopted a resolution creating a series of Preferred Shares, no par value per share, designated as the Series A Preferred Shares. We subsequently issued 2,000 shares of our Series A Preferred Shares for \$2,200 to our officers and directors. On March 20, 2019, we issued 2,000 additional shares of our Series A Preferred Shares to two officers and directors. Each preferred share is entitled to 15,000 votes on all matters submitted to the vote of our shareholders, is entitled to an annual dividend of \$0.05 per share when, as, and if declared by our directors, and is convertible at any time, at the option of the holder of the preferred shares, into one share of our common stock. The Series A Preferred Shares do not have any intrinsic a value in that they have only have voting rights and not a value on a price per share basis.

Mr. Verzura returned his 500 shares of Series A Preferred Shares to the Company upon his resignation as a director and officer of the Company on March 21, 2019. We subsequently cancelled Mr. Verzura’s 500 shares of Series A Preferred Shares effective March 21, 2019.

Authorized Common Shares

At a meeting of the shareholders of the Company on May 15, 2019, the authorized shares of common stock of the Company were increased from 100,000,000 shares to 200,000,000 shares.

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity offerings

February 14, 2018, we sold 65,440 shares of our common stock to an accredited investor for \$57,083. Such shares were valued at \$76,798 based on the previous trading day's closing price. The difference between the proceeds received of \$57,083 and the value of our common stock of \$76,798 was recorded as a loss on the issuance of common stock.

August 20 2018, we sold 27,359 shares of our common stock to an accredited investor for \$10,000. Such shares were valued at \$13,249 based on the previous trading day's closing price. The difference between the proceeds received of \$10,000 and the value of our common stock of \$13,249 was recorded as a loss on the issuance of common stock.

August 31, 2018, we sold 100,000 shares of our common stock to an accredited investor for \$51,500. Such shares were valued at \$62,750 based on the previous trading day's closing price. The difference between the proceeds received of \$51,500 and the value of our common stock of \$62,750 was recorded as a loss on the issuance of common stock.

March 11, 2019, we sold 52,288 shares of our common stock to an accredited investor for \$20,000.

May 8, 2019, we sold 500,000 shares of our common stock to an accredited investor for \$135,000.

May 14, 2019, we sold 600,000 shares of our common stock to accredited investors for \$162,000.

June 11, 2019, we sold 100,000 shares of our common stock to an accredited investor for \$27,000.

Common Stock Issued for Services

On December 31, 2018, we issued 251,497 shares of common stock valued at \$75,700, based on the previous trading day's closing price, as annual incentive bonuses for certain employees. We recorded the \$75,700 value of the common stock as share-based compensation expense and included this in general and administrative expenses in our consolidated statements of operations.

At various times throughout the year ended December 31, 2018, we issued 50,000 shares of our common stock valued at \$36,156 for marketing services, and we recorded the value of the shares as share-based compensation and recorded this in marketing, advertising and new business development expenses in our consolidated statements of operations.

At various times throughout the year ended December 31, 2018, we issued 310,000 shares of our common stock valued at \$223,996 for legal services, and we recorded the value of the shares as share-based compensation and in legal, accounting, consulting and public reporting in our consolidated statements of operations.

At various times throughout the year ended December 31, 2018, we issued 363,163 shares of our common stock valued at \$297,400 as compensation to employees, and we recorded the value of the shares as share-based compensation, which we recorded in general and administrative expenses in our consolidated statements of operations.

On December 31, 2018, we issued 147,227 shares of common stock valued at \$96,000, based on the applicable previous trading day's closing price, as a component of employee compensation. We recorded the \$96,000 value of the common stock as share-based compensation expense and included this in general and administrative expenses in our consolidated statements of operations.

During the six months ended June 30, 2019, we issued 30,000 shares of our common stock valued at \$12,169 for marketing services, and we recorded the value of the shares as share-based compensation and recorded this in marketing, advertising and new business development expenses in our consolidated statements of operations.

During the six months ended June 30, 2019, we issued 60,000 shares of our common stock valued at \$24,339 for research and development consulting services, and we recorded the value of the shares as share-based compensation and recorded this in Research and development expenses in our consolidated statements of operations.

During the six months ended June 30, 2019, we issued 90,000 shares of our common stock valued at \$38,430 for legal services, and we recorded the value of the shares as share-based compensation in Legal, accounting, consulting and public reporting in our consolidated statements of operations.

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Warrants:

The following table summarizes our share warrants outstanding as of June 30, 2019 and December 31, 2018:

	June 30, 2019		December 31, 2018	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Warrants outstanding, beginning of period	1,309,033	\$ 0.21	\$ 1,209,025	\$ 0.21
Warrants issued to consultants	50,004	0.43	100,008	0.89
Warrants exercised	—	—	—	—
Expired	—	—	—	—
Warrants outstanding, end of period	<u>1,359,037</u>	<u>0.35</u>	<u>1,309,033</u>	<u>\$ 0.27</u>
Warrants exercisable, end of period	<u>1,359,037</u>	<u>0.35</u>	<u>1,309,033</u>	<u>\$ 0.27</u>

The weighted-average remaining contractual life for warrants outstanding and exercisable at June 30, 2019 and December 31, 2018, is 2.79 years and 3.0 years, respectively; and the aggregate intrinsic value of warrants outstanding and exercisable at June 30, 2019 and December 31, 2018 is \$0.

132,669 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%

100,008 warrants issued during the year ended December 31, 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%

50,004 warrants issued during the six months ended June 30, 2019 were valued utilizing the Black Scholes option pricing model and the following range of assumptions on the date of valuation:

Stock price	\$ 0.34 - \$0.45
Exercise price	\$ 0.43
Risk free interest rate	1.76% - 2.52%
Expected term (years)	5
Expected volatility	140% - 185%
Expected dividends	0%

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2014 Equity Incentive Plan

On November 20, 2014, our board of directors approved our 2014 Stock Incentive Plan (the “Plan”) and the Plan became effective on November 19, 2015. The Plan provides officers, directors, selected employees and outside consultants an opportunity to acquire or increase a direct ownership interest in our operations and future success. Our board of directors currently administers the Plan and makes all decisions concerning which officers, directors, employees and other persons are granted awards, how many to grant to each recipient, when awards are granted, the terms and conditions applicable to awards, how the Plan should be interpreted, whether to amend or terminate the Plan and whether to delegate administration of the Plan to a committee. A maximum of 4,000,000 common shares are subject to the Plan. The Plan provides for the grant of stock options, stock awards, restricted stock units and stock appreciation rights. Stock options may be non-qualified stock options or incentive stock options except that stock options granted to outside directors, consultants or advisers providing services to us shall in all cases be non-qualified stock options. The Plan will terminate on November 20, 2024, unless the administrator terminates the Plan earlier. As of June 30, 2019 and December 31, 2018, no common shares were available for issue under the Plan.

2017 Equity Incentive Plan

On May 31, 2017, our board of directors approved our 2017 Stock Incentive Plan (the “Plan”) and the Plan became effective on May 31, 2017. The Plan provides officers, directors, selected employees and outside consultants an opportunity to acquire or increase a direct ownership interest in our operations and future success. Our board of directors currently administers the Plan and makes all decisions concerning which officers, directors, employees and other persons are granted awards, how many to grant to each recipient, when awards are granted, the terms and conditions applicable to awards, how the Plan should be interpreted, whether to amend or terminate the Plan and whether to delegate administration of the Plan to a committee. A maximum of 6,000,000 common shares are subject to the Plan. The Plan provides for the grant of stock options, stock awards, restricted stock units and stock appreciation rights. Stock options may be non-qualified stock options or incentive stock options except that stock options granted to outside directors, consultants or advisers providing services to us shall in all cases be non-qualified stock options. The Plan will terminate on May 31, 2027, unless the administrator terminates the Plan earlier. As of June 30, 2019 and December 31, 2018, 900,342 common shares were available for issue under the Plan.

2018 Equity Incentive Plan

On January 31, 2018, our board of directors approved our 2018 Stock Incentive Plan (the “Plan”) and the Plan became effective on January 31, 2018. On June 21, 2018, our board of directors amended the Plan to increase the maximum number of our shares of common shares subject to the plan from 12,500,000 to 25,000,000. The Plan provides officers, directors, selected employees and outside consultants an opportunity to acquire or increase a direct ownership interest in our operations and future success. Our board of directors currently administers the Plan and makes all decisions concerning which officers, directors, employees and other persons are granted awards, how many to grant to each recipient, when awards are granted, the terms and conditions applicable to awards, how the Plan should be interpreted, whether to amend or terminate the Plan and whether to delegate administration of the Plan to a committee. The Plan provides for the grant of stock options, stock awards, restricted stock units and stock appreciation rights. Stock options may be non-qualified stock options or incentive stock options except that stock options granted to outside directors, consultants or advisers providing services to us shall in all cases be non-qualified stock options. The Plan will terminate on January 31, 2028, unless the administrator terminates the Plan earlier. As of June 30, 2019 and December 31, 2018, 3,941,040 common shares were available for issue under the Plan.

Stock Options

On January 12, 2016, we awarded 1,050,000 stock options to each of Messrs. Blackmon and Verzura and 980,000 stock options to Mr. Ruby under our 2014 Stock Incentive Plan. The options were fully vested at the time of grant and give the option holder the right to purchase shares of our common stock at \$0.20 per share during the ten-year term of the option.

We calculated the fair value of each option to be approximately \$0.20 per option utilizing the Black Scholes option pricing model and the following assumptions on the date of valuation:

Stock price	\$	0.20
Exercise price	\$	0.20
Risk free interest rate		1.98%
Expected term (years)		10.0
Expected volatility		173%
Expected dividends		0%

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 twelve months ended December 31, 2018 was approximately \$5,785,348.

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	\$ 0.705
Exercise price	\$ 0.705
Risk free interest rate	2.73% - 2.81%
Expected term (years)	5
Expected volatility	427% - 505%
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 twelve months ended December 31, 2018 was approximately \$9,104,999.

The following table summarizes our stock options outstanding as of June 30, 2019 and December 31, 2018, respectively:

	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Stock options outstanding at December 31, 2017	6,637,500	8.9	\$ 0.28
Issued	20,199,800	9.3	\$ 0.57
Exercised	—	—	—
Expired	—	—	—
Stock options outstanding at December 31, 2018	26,837,300	9.2	\$ 0.43
Issued	10,000	5.0	0.43
Exercised	—	—	—
Expired	—	—	—
Stock options outstanding at June 30, 2019	<u>26,847,300</u>	<u>8.6</u>	<u>\$ 0.42</u>
Stock options exercisable at June 30, 2019	<u>25,722,507</u>	<u>8.3</u>	<u>\$ 0.42</u>

The total price to exercise all outstanding stock options is \$11,055,939. The weighted-average remaining contractual life for stock options outstanding and exercisable at June 30, 2019, is 8.3 years, and the aggregate intrinsic value of options outstanding and exercisable at June 30, 2019 is \$0.

UNITED CANNABIS CORPORATION
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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 six months ended June 30, 2019 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 \$0.58 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 six months ended June 30, 2019 was necessary as a result of the repricing of the stock options.

NOTE 17 – SHARE-BASED COMPENSATION

Share-based Compensation

We recognize share-based compensation expense in cost of revenues, sales and marketing expenses, R&D 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 six months ended June 30, 2019 and 2018, under our 2017 Equity Incentive Plan and our 2018 Equity Incentive Plan. Share-based compensation expense for the three and six months ended June 30, 2019 and 2018 is, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Options granted to officers, directors and employees	\$ 124,247	\$ 9,185,275	\$ 226,035	\$ 14,510,479
Warrants and common stock issued for advisory board fees	34,752	43,276	69,502	99,319
Common stock issued for services	29,928	51,389	74,938	126,074
Common stock issued as compensation to employees	—	145,000	—	178,500
	<u>\$ 188,927</u>	<u>\$ 9,424,940</u>	<u>\$ 370,475</u>	<u>\$ 14,914,372</u>

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:

	Six Months Ended June 30,	
	2019	2018
Customer A	27%	98%
Customer B	13%	2%
Customer C	9%	—%

Percentage of Accounts Receivable:

	June 30, 2019	December 31, 2018
Customer A	59%	98%
Customer B	41%	2%
Customer C	—%	—%

UNITED CANNABIS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Percentage of Expenses:

	Six Months Ended June 30,	
	2019	2018
Vendor A	20%	26%
Vendor B	7%	21%
Vendor C	5%	14%

Percentage of Accounts Payable:

	June 30, 2019	December 31, 2018
	Vendor A	65%
Vendor B	8%	22%
Vendor C	6%	7%

NOTE 19 – COMMITMENTS AND CONTINGENCIES

Contractual Obligations and Commercial Commitments

Clinical Trial Funding Commitment

On August 3, 2018, the University of Florida 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 our 95% owned subsidiary, Prana Therapeutics, Inc.’s licensed flagship product, Epidiferphane™ (EDP™). We have committed to spend approximately \$300,000 during 2019 and 2020 to fund phase I and phase II clinical trials in connection with the IND approval.

Research Laboratory

Prana Therapeutics, Inc., our 95% owned subsidiary (“PTI”), utilizes laboratory facilities at the University of Florida School of Medicine for research purposes. PTI is negotiating a research agreement with University of Florida Trustees for 2019 and 2020 for the continued use of the laboratory facilities. Under the terms of the draft research agreement, PTI would pay UFT \$700,000 in 2019 and \$900,000 in 2020 in varying quarterly installments, beginning in June 2019.

NOTE 20 – SUBSEQUENT EVENTS

On July 7, 2019 and July 19, 2019, we received additional draw downs in the amounts of \$1,000,000 and \$500,000, respectively, under the terms of the \$10,000,000 note payable dated June 7, 2019. The proceeds of the loan were used to purchase raw materials.

On August 8, 2019, we received \$1,000,000 of net proceeds from a short-term loan in the amount of \$1,300,000. The proceeds of the loan were used to purchase raw materials.

On August 12, we received \$625,000 of net proceeds from a short-term loan in the amount of \$781,250. The proceeds of the loan were used to purchase raw materials.

On August 12, we received \$100,000 of net proceeds from a short-term loan in the amount of \$125,000. The proceeds of the loan were used to purchase raw materials.

In accordance with ASC 855-10 we have analyzed our operations subsequent to June 30, 2019 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. See “Forward-Looking Statements” in the Prospectus Summary.

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 Prospectus.

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 March 31, 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.

United Cannabis Corporation is focused on extracting products from industrial hemp plants, which we wholesale to manufacturers, and which we use to create unique therapeutics for a wide range of diseases that can be utilized by patients globally. We own distinct intellectual property relating to the legalized growth, production, manufacture, marketing, management, utilization and distribution of medical and recreational marijuana and marijuana infused products. We license our intellectual property to businesses in the cannabis industry.

Patent

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 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 our 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).

Industrial Hemp Extraction Program

In early 2018, 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 pilot industrial hemp extraction facility in Weldona, Colorado. We hired and trained specialized extraction personnel and laboratory technicians that enable us to convert components of industrial hemp flower to finished CBD products.

The Weldona extraction facility opened in April 2018, and during the 13 months that the Weldona extraction facility was in operation, it generated approximately \$12,500,000 of revenues from the sale of the CBD finished products produced at the facility.

Based upon the positive financial results of the Weldona extraction facility and the passage of the 2018 Farm Bill, which legalized the cultivation, sale and distribution of products derived from the hemp plant, we decided in late 2018 to greatly expand our industrial hemp extraction program in order to capitalize on the growing world-wide demand that we see for CBD extracted products. Our first step in this expansion program was the construction of our new industrial hemp extraction facility in Mead, Colorado. The Mead extraction facility was completed in late June 2019 and has a production capacity fifteen (15) times greater than our Weldona extraction facility. Production at the Weldona extraction facility was closed down at the end of July 2019.

Our expansion program also includes operating industrial hemp extraction facilities that are geographically dispersed throughout the United States. These facilities will be a replica of our Mead facility, with the same production capacity. Our first undertaking in that regard is a joint venture we have formed to construct an industrial hemp extraction facility in South Carolina that is scheduled to begin construction between May and July of 2019.

Our expansion program includes plans to open extraction facilities in California, Florida, Illinois, Tennessee New York, and in either Oregon or Washington to serve the pacific northwest.

We are presently researching agricultural acreage and physical plant locations in Jamaica, where we plan to open an industrial hemp extraction facility, and where we plan to cultivate hundreds of acres of industrial hemp in conjunction with our 50% owned Jamaican subsidiary, Cannabinoid Research Development Company, Limited. If an extraction facility is built in Jamaica, it is our intent to export CBD products throughout the Caribbean and to export CBD products to Canada and Europe. It is our understanding that there is a strong demand for CBD products in the Caribbean, Canada and the European countries.

2018 Farm Bill Legalizing Hemp

On December 12, 2018, Congress passed the 2018 Farm Bill, which was signed into law by President Trump the following week.

The bill includes the following important provisions:

- The 2018 Farm Bill defines hemp as the plant *Cannabis sativa L* and any part of the plant with a delta-9 THC concentration of not more than 0.3 percent by dry weight. This definition is consistent with the definition of “industrial hemp” in the 2014 bill, which created a limited agricultural pilot program regarding research into industrial hemp.
- The 2018 Farm Bill removes hemp from the Controlled Substances Act, paving the way for the wholly legal cultivation, possession, sale and distribution of the hemp plant.
- The 2018 Farm Bill delegates to states and Indian tribes the broad authority to regulate and limit the production and sale of hemp and hemp products within their borders. States and Indian tribes cannot, however, limit the transportation or shipment of hemp and hemp products through their respective jurisdictions.

The Brightfield Group, a Chicago, Illinois based predictive analytics and market research firm for the legal cannabis and CBD industry, estimates that the passage of the 2018 Farm Bill will help expand the CBD market such that the market will reach \$22 billion by 2022.

Prana Bio Nutrient Medicinal Products

One of our primary goals is to advance the use of phytocannabinoids therapeutics in medicine through research, product development and education. We are dedicated to improving the lives of patients. We provide the intellectual property, patented technology, trusted brands, clinical data, technical training, sales tools and methodologies necessary to assist our clients’ businesses for success. Our ACT Now Program utilizes our patented Prana Bio Nutrient Medicinals with a HIPAA compliant electronic health record (“EHR”) software that enables us to create comprehensive sequencing charts specific to our patients’ medical ailments. The ACT Now EHR software allows for global monitoring, patient management, and effective cannabinoid therapy protocols.

Our Prana Bio Nutrient Medicinal products are designed to help supplement deficiencies related to the endocannabinoid system including pain, neuropathy, arthritis, MS, IBS, autism, seizures, eczema, sleep, anxiety, head trauma, opioid dependency and clinical endocannabinoid deficiencies. The endocannabinoid system is a signaling system within the human body that utilizes hundreds of receptors to help maintain homeostasis between the central nervous system and the immune system.

Our Prana Aromatherapy Transdermal Roll-on line uses a proprietary blend of essential oils infused with cannabinoids designed to provide targeted and large surface relief with combinations of aromatherapy. The transdermal is a part of the complete patented Prana Bio Nutrient Medicinals line, which is offered in 5 categories (P1, P2, P3, P4, P5), with three delivery methods (sublingual, capsules, topical). Dosages range from 1mg to 50mg, are available in both raw and activated formulations, and paired with specific cannabis derived terpene profiles.

Prana Therapeutics, Inc

In furtherance of our long-term plan, on July 14, 2017, we acquired 95% of the voting interests of Prana Therapeutics, Inc. (“Prana” or “PTI”), in consideration for the issuance of 5,730,000 shares of our common stock. The acquisition of Prana broadens our foundation in plant-based drug development. Prana is a biotech company focused on developing targeted therapeutics for the prevention of the negative side effects of chemotherapy, management of rheumatoid arthritis and treatment of brain cancer.

Similar to the use of the compounds found in the cannabis plant to create our Prana Bio Medicinal products, Prana identifies novel combinations of botanical compounds to address unmet medical needs. Prana’s principal drug, Epidiferphane™, is a leading example of how combinatorial targeting can be used to address complex and difficult-to-treat diseases.

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. The Phase 1 trial will test the potential toxicity of EDP™ at two targeted dosages and will measure safety levels, side effects, optimal dosage, and formulation. The Phase 2 trial will focus on whether or not EDP™ passes efficacy evaluations by reducing side effects of chemotherapy in patients.

Prana was founded by Dr. Brent Reynolds, a professor of Medical Research in the Department of Neurosurgery at the University of Florida, College of Medicine and Dr. Dennis Steindler, a professor at Tufts University as well as, Dr. Loic Deleyrolle, a research assistant at McKnight Brain Institute at the University of Florida. Prana’s business model is based on technology developed there. Drs. Reynolds and Steindler have filed on behalf of the University of Florida Research Foundation, Inc. (“University of Florida”) patents related to the composition of matter and use claims on this technology in the United States and internationally. Prana owns the exclusive, world-wide license to the technology through a licensing agreement with the University of Florida.

We purchased Prana based upon our belief in the potential of Epidiferphane™ to help with the negative side effects of chemotherapy, inflammation and brain tumors;

The Negative Side Effects of Chemotherapy

An estimated 650,000 patients undergo chemotherapy each year, in the US alone, at a cost of approximately \$12 billion. There are several protocols to minimize the side effects associated with chemotherapy, there is currently no protocol that prevents these symptoms. Preclinical data have shown Epidiferphane to be effective in preventing Anemia (low red blood cells), Neutropenia (low white blood cells), attenuating Chemotherapy Induced Peripheral Neuropathy, and protecting the endogenous neural stem cell population that is associated with Chemofog (memory problems). At least one of these conditions are experienced by 90% of patients going through chemotherapy.

Inflammatory Disease

Approximately 150 million patients suffer from inflammation and pain associated with arthritis and back-centric conditions, spending in excess of \$30 billion on treatments, many of which have significant side effects. Epidiferphane™ in combination with nutritional ketosis reduces levels of cytokines that contribute to inflammatory diseases and in a small cohort of patients has been reported to reduce pain, morning stiffness and improve sleep.

Brain Tumors

There are approximately 80,000 new brain cancer diagnoses in the US each year; Glioblastoma, the most common type, has a survival diagnosis of approximately 12 months. In pre-clinical rodent testing, Epidiferphane™, in conjunction with a nutritional ketosis, has been shown to double the mean life expectancy, increase the effectiveness of chemotherapy, and sensitize chemotherapy resistant tumors to standard of care drugs.

Cannabinoid Research Development Company Limited (“CRD”)

In August 2014, we acquired 50% of the capital stock of CRD and we agreed to fund the operations of CRD on terms mutually agreed upon by us and CRD. As of the date of this annual report, CRD had ten employees and had applied to the Jamaican government for a license to conduct research on the benefits of cannabis which will be grown by CRD in Jamaica.

On March 16, 2018 Jamaica’s University of the West Indies’ Ethics Committee approved our proposal to conduct clinical trials on our Prana Bio Nutrient Medicinals P1 Capsules for the treatment of chronic pain. The study was conducted in conjunction with CRD at the Centre For Cannabis Research at the University of West Indies, Mona Campus, in Jamaica. The clinical research study has been completed for enrollment, patient dosing, and blood analysis. Data is being analyzed by outside biostatisticians. A peer-reviewed publication is expected in 2019.

ACT Now Program

One of our primary goals is to advance the use of cannabinoids in medicine through research, product development and education. Our intellectual property includes our ACT Now Program which is a comprehensive full spectrum cannabinoid therapy guide that utilizes the entire cannabis plant by controlling specific cannabinoid ratios, accurate dosing and multiple non-invasive delivery methods. Our ACT Now Program offers a wide range of affordable patient driven programs with limitless combinations of cannabinoid-based products and nutritional recommendations to assist patients suffering from chronic pain, opiate dependency, inflammation, glaucoma, PTSD, neuropathy, multiple sclerosis, fibromyalgia, Crohn’s, IBS, seizures, epilepsy, paralysis, autoimmune, autism, tumors, HIV/AIDS and many types of cancer.

We own certain proprietary formulations, processes and other intellectual property which can be used to produce our Prana Bio Nutrient Medicinals in connection with our ACT Now Program. These products, which are made with unique combinations of pharmaceutically active cannabinoids, provide a comprehensive solution designed to enable physicians and patients to design, implement and monitor effective therapy protocols.

Results of Operations

Material changes in line items in our Statement of Operations for the six months ended June 30, 2019, as compared to the same period last year, are discussed below:

Item	Increase (I) or Decrease (D)	Reason
Revenues	I	Total revenues for the six months ended June 30, 2019 increased \$6,245,746 over the same period last year. The increase is substantially due to the fact that we sold \$6,147,733 more of our industrial hemp products than we did in the same period for the prior year.
Gross profit, as a % of revenue	D	The cost of goods sold for the six months ended June 30, 2019 includes raw material costs and manufacturing costs incurred during the startup period for our Mead extraction facility. Because the Mead extraction facility was not consistently operating during the startup period, raw material costs and manufacturing costs were greater proportionally than for the same period last year.
Operating expenses	D	Decreased substantially due to the fact the fair market value of stock options issued to officers, directors and employees was \$226,035 for the six months ended June 30, 2019 as compared to \$14,510,479 for the same period in the prior year
Other Expense	I	Our other expense was \$2,000,545 and \$979,704 for the six months ended June 30, 2019 and 2018, respectively. The increase in other expenses is due to an increase of \$1,331,885 in losses from the extinguishment of debt and an increase of \$ 570,945 in the amount of amortization of debt discount for the six months ended June 30, 2019 as compared to the same period for the prior year. Additionally, the increase in other expense was offset by the fact that we incurred \$928,601 of losses on the issuance of common stock during the six months ended June 30, 2018, while we incurred no such losses during the six months ended June 30, 2019.

Material changes in line items in our Statement of Operations for the three months ended June 30, 2019, as compared to the same period last year, are discussed below:

Item	Increase (I) or Decrease (D)	Reason
Revenues	I	Total revenues for the three months ended June 30, 2019 increased \$2,099,641 over the same period last year. The increase is substantially due to the fact that we sold \$2,018,464 more of our industrial hemp products than we did in the same period for the prior year.
Gross profit, as a % of revenue	I	Revenues for the three months ended June 30, 2019 were \$2,099,641 greater than for the three months ended June 30, 2018, while the cost of raw materials and manufacturing increased \$1,199,323 over the same period. This resulted in an increase of our gross profit for the three months ended June 30, 2019 over the same period in the prior year because the cost of raw materials decreased in the current period as compared to the prior period.
Operating expenses	D	Decreased substantially due to the fact the fair market value of stock options issued to officers, directors and employees was \$124,247 for the three months ended June 30, 2019 as compared to \$9,185,275 for the same period in the prior year
Non-Operating expenses	I	Our other expenses were \$1,811,138 and \$415,145 for the three months ended June 30, 2019 and 2018, respectively. The increase in other expense is due to an increase of \$1,331,885 in losses from the extinguishment of debt for the three months ended June 30, 2019 as compared to the same period for the prior year.

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 marijuana by the federal government.
- The opening of our industrial hemp extraction facility in Mead Colorado, as further discussed above under the caption “Industrial Hemp Extraction Program”.

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 six months ended June 30, 2019 and 2018 were:

	2019	2018
Cash used in operations	\$ (2,890,864)	\$ (3,830,292)
Proceeds from notes payable	6,273,500	3,426,108
Payment of notes payable	(1,720,215)	—
Payment of construction contracts	(888,686)	—
Proceeds from proposed joint venture that was never formed	—	650,000
Acquisition of equipment and improvements for to extraction facilities, laboratories and leasehold improvements	(631,324)	(977,179)
Sale of common stock	334,000	57,083
Purchase of intangible assets	(6,858)	(89,050)
Proceeds (payments) from advances from officers and directors	(3,838)	501,241
Payments on installment loans	(12,959)	(28,775)

General

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

	For the twelve Months Ending June 30,				
	2020	2021	2022	2023	2024
Operating leases	\$ 470,302	\$ 416,906	\$ 393,951	\$ 50,028	\$ 1
Research laboratory at the University of Florida School of Medicine	560,000	900,000	—	—	—
	<u>\$ 1,030,302</u>	<u>\$ 1,316,906</u>	<u>\$ 393,951</u>	<u>\$ 50,028</u>	<u>\$ 1</u>

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 \$7,200,000 of salaries and 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) \$7,000,000 on opening new extraction facilities, (ii) \$500,000 on pursuing licensing and patent applications for products developed and licensed by our 95% owned subsidiary, Prana Therapeutics, Inc., and (iii) \$1,500,000 on legal fees to enforce and defend our US Patent #9730911 in litigation that is currently pending, and to pursue other patent applications, and (iv) \$750,000 on clinical research and clinical trials.

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 six months ended June 30, 2019, we incurred losses of \$4,681,093, used cash of \$2,890,864 in our operating activities, had a working capital deficit of \$5,037,018 and had an accumulated deficit of \$44,266,169 at June 30, 2019. 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.

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.

There have been no recently issued guidance that would have a material impact on our consolidated financial statements.

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 procedures 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 controls deficiencies.

While we have not yet remediated these material weaknesses, we will continue our remediation efforts during fiscal 2019.

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 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: August 14, 2019

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

Date: August 14, 2019

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