

# SECURITIES & EXCHANGE COMMISSION EDGAR FILING

**Kannalife Inc**

**Form: 10-Q**

**Date Filed: 2019-11-13**

Corporate Issuer CIK: 1615999

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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: 000-55657

Kannalife, Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

46-2645343

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

3805 Old Easton Road

Doylestown, PA 18902

(Address of principal executive offices including Zip Code)

(858) 883-2642

(Registrant's telephone number, including area code)

\_\_\_\_\_  
(Former Name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A		

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 13, 2019, the registrant had 74,225,141 shares of common stock (par value \$0.0001) outstanding.

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**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements (unaudited)**

KANNALIFE, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 120,550	\$ 307,131
Marketable security (available for sale)	395,205	2,579,640
Other receivables	9,299	99,691
Due from related party, net	—	16,334
Total Current Assets	525,054	3,002,796
<b>NON-CURRENT ASSETS:</b>		
Other assets	27,490	—
Property and equipment, net	79,480	3,074
Security deposits	17,121	17,121
Total Non-Current Assets	124,091	20,195
<b>TOTAL ASSETS</b>	\$ 649,145	\$ 3,022,991
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 290,321	\$ 283,996
Payroll and related liabilities	247,074	246,067
Loan payable	620,000	—
Loan payable - related party	42,092	16,173
Capital lease obligations	7,460	—
Total Current Liabilities	1,206,947	546,236
<b>LONG TERM LIABILITIES:</b>		
Loan payable - long term	—	620,000
Loan payable - related party - long term	—	25,822
Convertible notes payable - long term	376,373	500,000
Capital lease obligation - long term portion	28,426	—
Total Long Term Liabilities	404,799	1,145,822
<b>TOTAL LIABILITIES</b>	1,611,746	1,692,058
Commitments and contingencies	—	—
<b>STOCKHOLDERS' EQUITY (DEFICIT):</b>		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized		
Series A preferred stock, 75 shares designated, 75 issued and outstanding (Liquidation preference of \$75,000)	—	—
Series B preferred stock, 75 shares designated, 75 issued and outstanding (Liquidation preference of \$75,000)	—	—
Common stock, \$0.0001 par value, 200,000,000 authorized, 74,225,141 and 69,854,141 issued and outstanding, respectively	7,422	6,985
Additional paid-in capital	6,794,612	6,381,755
Accumulated deficit	(7,764,635)	(5,052,051)
Non-controlling interest	—	(5,756)
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	(962,601)	1,330,933
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>	\$ 649,145	\$ 3,022,991

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

KANNALIFE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
<b>NET REVENUES:</b>				
Grant Revenue	\$ 23,968	\$ 38,101	\$ 126,027	\$ 104,965
<b>TOTAL NET REVENUES</b>	<b>23,968</b>	<b>38,101</b>	<b>126,027</b>	<b>104,965</b>
<b>OPERATING EXPENSES:</b>				
Research and development	189,443	67,059	439,680	125,696
General and administrative	601,567	349,782	1,511,334	537,217
<b>TOTAL OPERATING EXPENSES</b>	<b>791,010</b>	<b>416,841</b>	<b>1,951,014</b>	<b>662,913</b>
<b>LOSS FROM OPERATIONS</b>	<b>(767,042)</b>	<b>(378,740)</b>	<b>(1,824,987)</b>	<b>(557,948)</b>
<b>OTHER (EXPENSE) INCOME:</b>				
Interest expense, net	(17,794)	(6,962)	(49,754)	(15,112)
Other (expense) income, net	—	—	—	31,183
Loss on conversion of convertible debt	—	—	—	(61,815)
Realized gain on investment	—	—	—	3,901,974
Net gains and losses recognized during the period on marketable security	(301,661)	(415,833)	(844,671)	(415,833)
<b>TOTAL OTHER (EXPENSE) INCOME</b>	<b>(319,455)</b>	<b>(422,795)</b>	<b>(894,425)</b>	<b>3,440,397</b>
<b>NET (LOSS) INCOME BEFORE INCOME TAX</b>	<b>\$ (1,086,497)</b>	<b>\$ (801,535)</b>	<b>\$ (2,719,412)</b>	<b>\$ 2,882,449</b>
Income tax expense (benefit)	—	—	—	772,000
<b>NET (LOSS) INCOME</b>	<b>\$ (1,086,497)</b>	<b>\$ (801,535)</b>	<b>\$ (2,719,412)</b>	<b>\$ 2,110,449</b>
Net loss attributable to noncontrolling interests	(1,953)	(2,272)	(6,828)	(2,272)
<b>Net (loss) income attributable to Kannalife, Inc.</b>	<b>\$ (1,084,544)</b>	<b>\$ (799,263)</b>	<b>\$ (2,712,584)</b>	<b>\$ 2,112,721</b>
(Loss) income attributable to Kannalife, Inc. per common share - basic	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ 0.03
(Loss) income attributable to Kannalife, Inc. per common share - diluted	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ 0.03
Weighted average common shares outstanding - basic	70,934,271	67,264,467	70,218,141	62,585,619
Weighted average common shares outstanding - diluted	70,934,271	67,264,467	70,218,141	67,828,952

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

KANNALIFE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (2,719,412)	\$ 2,110,449
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Loss on issuance of stock for conversion of notes payable and accrued salaries	—	61,815
Realized gain on investment	—	(3,901,974)
Net gains and losses recognized during the period on marketable security	301,661	415,833
Depreciation	1,430	—
Stock based compensation	275,878	7,558
Provision for deferred income taxes	—	772,000
Changes in operating assets and liabilities:		
Security deposits	—	(2,121)
Other receivables	90,392	(19,651)
Accounts payable and accrued expenses	32,698	(148,192)
Payroll and related liabilities	1,007	6,662
Due from related party, net	16,334	(65,326)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(2,000,012)</b>	<b>(762,947)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received upon acquisition	—	289,654
Proceeds from sale of marketable securities	1,882,774	—
Purchase of equipment	(41,950)	—
Purchase of other asset	(27,490)	—
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>1,813,334</b>	<b>289,654</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of Series A Preferred stock	—	75,000
Proceeds from issuance of Series B Preferred stock	—	75,000
Proceeds from issuance of common stock	—	203,000
Proceeds from notes payable	—	345,000
Proceeds from notes payable - related party	97	—
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>97</b>	<b>698,000</b>
Net (decrease) increase in cash	(186,581)	224,707
<b>Cash and cash equivalents, beginning of period</b>	<b>307,131</b>	<b>4,326</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 120,550</b>	<b>\$ 229,033</b>
<b>NON-CASH ACTIVITIES:</b>		
Issuance of common stock for conversion of notes payable and accrued interest	\$ 150,000	\$ 236,104
Issuance of common stock for remaining share of non-controlling interest	\$ 12,584	—
Property and equipment financed through capital leases	\$ 35,886	—
Issuance of common stock for conversion of notes payable and accrued interest - related party	\$ —	\$ 356,176
Issuance of common stock for conversion of accrued salaries	\$ —	\$ 2,812,810
Net liabilities assumed from reverse acquisition	\$ —	\$ 130,346

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

KANNALIFE, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
(Unaudited)

	Series A Preferred Stock		Series B Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Non-controlling interest	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2017	—	\$ —	—	\$ —	53,281,932	\$ 5,328	\$ 2,683,776	\$ (5,988,866)	\$ —	\$ (3,299,762)
Issuance of stock options for services	—	—	—	—	—	—	7,558	—	—	7,558
Issuance of common stock for conversion of notes payable	—	—	—	—	1,537,009	153	653,940	—	—	654,093
Issuance of common stock for conversion of accrued salaries	—	—	—	—	5,505,200	551	2,812,260	—	—	2,812,811
Issuance of common stock for cash	—	—	—	—	2,030,000	203	202,797	—	—	203,000
Issuance of Series A Preferred stock for cash	75	—	—	—	—	—	75,000	—	—	75,000
Issuance of Series B Preferred stock for cash	—	—	75	—	—	—	75,000	—	—	75,000
Effect of reverse recapitalization transaction	—	—	—	—	7,500,000	750	(131,096)	—	—	(130,346)
Net income	—	—	—	—	—	—	—	2,112,721	(2,272)	2,110,449
Balance at September 30, 2018	75	\$ —	75	\$ —	69,854,141	\$ 6,985	\$ 6,379,235	\$ (3,876,145)	\$ (2,272)	\$ 2,507,803
Balance at June 30, 2018	—	\$ —	—	\$ —	60,324,141	\$ 6,032	\$ 6,155,015	\$ (3,076,882)	\$ —	\$ 3,084,165
Issuance of stock options for services	—	—	—	—	—	—	2,519	—	—	2,519
Issuance of common stock for cash	—	—	—	—	2,030,000	203	202,797	—	—	203,000
Issuance of Series A Preferred stock for cash	75	—	—	—	—	—	75,000	—	—	75,000
Issuance of Series B Preferred stock for cash	—	—	75	—	—	—	75,000	—	—	75,000
Effect of reverse recapitalization transaction	—	—	—	—	7,500,000	750	(131,096)	—	—	(130,346)
Net loss	—	—	—	—	—	—	—	(799,263)	(2,272)	(801,535)
Balance at September 30, 2018	75	\$ —	75	\$ —	69,854,141	\$ 6,985	\$ 6,379,235	\$ (3,876,145)	\$ (2,272)	\$ 2,507,803
Balance at December 31, 2018	75	\$ —	75	\$ —	69,854,141	\$ 6,985	\$ 6,381,755	\$ (5,052,051)	\$ (5,756)	\$ 1,330,933
Issuance of stock options for services	—	—	—	—	—	—	5,878	—	—	5,878
Issuance of common stock for services	—	—	—	—	1,750,000	175	174,825	—	—	175,000
Issuance of common stock to board members for services	—	—	—	—	950,000	95	94,905	—	—	95,000
Issuance of common stock for conversion of notes payable and accrued interest	—	—	—	—	1,500,000	150	149,850	—	—	150,000
Issuance of common stock for remaining share of non-controlling interest	—	—	—	—	171,000	17	(12,601)	—	12,584	—
Net loss	—	—	—	—	—	—	—	(2,712,584)	(6,828)	(2,719,412)
Balance at September 30, 2019	75	\$ —	75	\$ —	74,225,141	\$ 7,422	\$ 6,794,612	\$ (7,764,635)	\$ —	\$ (962,601)
Balance at June 30, 2019	75	\$ —	75	\$ —	69,854,141	\$ 6,985	\$ 6,386,793	\$ (6,680,091)	\$ (10,631)	\$ (296,944)
Issuance of stock options for services	—	—	—	—	—	—	840	—	—	840
Issuance of common stock for services	—	—	—	—	1,750,000	175	174,825	—	—	175,000
Issuance of common stock to board members for services	—	—	—	—	950,000	95	94,905	—	—	95,000
Issuance of common stock for conversion of notes payable and accrued interest	—	—	—	—	1,500,000	150	149,850	—	—	150,000

Issuance of common stock for remaining share of non-controlling interest	—	—	—	—	171,000	17	(12,601)	—	12,584	—
Net loss	—	—	—	—	—	—	—	(1,084,544)	(1,953)	(1,086,497)
Balance at September 30, 2019	75	\$ —	75	\$ —	74,225,141	\$ 7,422	\$6,794,612	\$ (7,764,635)	\$ —	\$ (962,601)

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

**KANNALIFE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**  
**(UNAUDITED)**

**NOTE 1 – ORGANIZATION AND NATURE OF OPERATIONS**

Kannalife, Inc. (the “Company”) was incorporated under the laws of the state of Delaware on March 25, 2013, under the name TYG Solutions Corp. The Company consummated a share exchange transaction on July 25, 2018, with Kannalife Sciences, Inc. (“Kannalife”), a privately held Delaware corporation formed in 2010, the accounting acquirer. Upon completion of the share exchange transaction, Kannalife is treated as the surviving entity and accounting acquirer although the Company was the legal acquirer. Accordingly, the Company’s historical financial statements are those of Kannalife the surviving entity and accounting acquirer. All references that refer to (the “Company” or “we” or “us” or “our”) are Kannalife, unless otherwise differentiated. Kannalife is a phytomedical/pharmaceutical company that specializes in the research and development of synthetic molecules and therapeutic products derived from botanical sources, including the cannabis taxa.

***Share Exchange and Corporate Restructuring***

On July 25, 2018, the Company entered into a Share Exchange Agreement (the “Share Exchange Agreement”) with Kannalife Sciences, Inc., a Delaware corporation (“Kannalife”), and certain stockholders of Kannalife (the “Kannalife Stockholders”).

Pursuant to the terms of the Share Exchange Agreement, the Company acquired approximately 99.7% of the issued and outstanding shares of Kannalife by means of a share exchange with the Kannalife Stockholders in exchange for 60,324,141 newly issued shares of the common stock of the Company (the “Share Exchange”), which increased the Company’s issued and outstanding shares of common stock to 69,854,141. As a result of the Share Exchange, Kannalife became a 99.7% owned subsidiary of the Company, which on a going forward basis will result in consolidated financial reporting by the Company to include the results of Kannalife. The initial closing of the Share Exchange occurred concurrently with entry into the Share Exchange Agreement (the “Initial Closing”). After the Initial Closing and for a period of no more than 120 days thereafter, unless extended in the sole discretion of the Company, the Company may issue, on the same terms and conditions as those contained in the Share Exchange Agreement, additional shares of the common stock of the Company to Kannalife Stockholders that did not participate in the Initial Closing, provided that each additional Kannalife Stockholder becomes a party to the transaction documents (the “Additional Closing”). On August 30, 2019, the Company acquired the remaining non-controlling interest in Kannalife Sciences, Inc. (which represented 0.30% equity interest held by the original shareholders of Kannalife before the Share Exchange), bringing our ownership interest in Kannalife from 99.7% to 100%.

The Share Exchange has been accounted for as a reverse acquisition of the Company by Kannalife but in substance as a capital transaction, rather than a business combination since the Company had nominal operations and assets prior to and as of the closing of the Share Exchange. The former stockholders of Kannalife represent a significant constituency of the Company’s voting power immediately following the Share Exchange, and Kannalife’s management has assumed operational, financial and governance control. The transaction is deemed a reverse recapitalization and the accounting is similar to that resulting from a reverse acquisition, except that no goodwill or other intangible assets should be recorded. For accounting purposes, Kannalife is treated as the surviving entity and accounting acquirer although the Company was the legal acquirer. Accordingly, the Company’s historical financial statements are those of Kannalife.

All references to common stock, share and per share amounts have been retroactively restated to reflect the reverse recapitalization as if the transaction had taken place as of the beginning of the earliest period presented.

Company assets and liabilities pre-acquisition:

Cash and cash equivalents	\$	289,654
Note receivable		142,500
<b>Total assets</b>	<b>\$</b>	<b>432,154</b>
Accounts payable and accrued expenses	\$	20,504
Loan payable - related party - long term		41,995
Convertible notes payable - related party		500,000
<b>Total liabilities</b>		<b>562,499</b>
<b>Total liabilities assumed</b>	<b>\$</b>	<b>(130,345)</b>

**KANNALIFE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**  
**(UNAUDITED)**

The following summarized unaudited consolidated pro forma information shows the results of operations of the Company had the reverse acquisition occurred on January 1, 2018:

	<b>Pro Forma (Unaudited)</b> <b>Nine Months Ended</b> <b>September 30,</b> <b>2018</b>
Total revenues	\$ 104,965
Net income	\$ 2,028,921
Net income per common share, basic	\$ 0.03
Net income per common share, diluted	\$ 0.03

The summarized unaudited consolidated pro forma results are not necessarily indicative of results which would have occurred if the acquisition had been in effect for the period presented. Further, the summarized unaudited consolidated pro forma results are not intended to be a projection of future results.

***Name Change***

On November 9, 2018, the Company filed an amendment to its certificate of incorporation with the Delaware Secretary of State that changed its name to Kannalife, Inc. The Company concurrently submitted a request to FINRA for approval of the name change as well as a ticker symbol change. The Company's name change and ticker symbol change was reviewed and processed by FINRA and went effective January 17, 2019.

***Unaudited Interim Financial Information***

We have prepared the accompanying consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated financial statements are unaudited and, in our opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of our balance sheets, operating results, and cash flows for the periods presented. Operating results for the periods presented are not necessarily indicative of the results that may be expected for 2019. Certain information and footnote disclosures normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with our audited financial statements and accompanying notes for the year ended December 31, 2018, included in the Company's Annual Report on Form 10-K filed with the SEC on April 9, 2019.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies used in the preparation of the consolidated financial statements are as follows:

***Basis of Presentation***

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP.

***Principles of Consolidation***

The Company evaluates the need to consolidate affiliates based on standards set forth in ASC 810 Consolidation ("ASC 810").

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Kannalife Sciences, Inc. All significant consolidated transactions and balances have been eliminated in consolidation. The operations of Kannalife Sciences, Inc. are included in the consolidated financial statements from the date of the Share Exchange.

***Significant risks and uncertainties***

The Company's operations are subject to a number of factors that can affect its operating results and financial condition. Such factors include, but are not limited to: the results of clinical testing and trial activities of the Company's products, the Company's ability to obtain regulatory approval to market its products, competition from products manufactured and sold or being developed by other companies, the price of, and demand for, Company products, the Company's ability to negotiate favorable licensing or other manufacturing and marketing agreements for its products, and the Company's ability to raise capital.

**KANNALIFE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2019**  
**(UNAUDITED)**

The Company currently has no commercially approved products, and there can be no assurance that the Company's research and development will be successfully commercialized. Developing and commercializing a product requires significant time and capital, and is subject to regulatory review and approval as well as competition from other biotechnology and pharmaceutical companies. The Company operates in an environment of rapid change, and is dependent upon the continued services of its employees and consultants and obtaining and protecting intellectual property.

***Use of Estimates***

The preparation of consolidated financial statements and accompanying notes in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the periods. Actual results could differ from those estimates. Significant matters requiring the use of estimates and assumptions include, but are not necessarily limited to, establishing the fair value of marketable securities and periodically evaluating marketable securities for potential impairment, fair value of the Company's stock, stock based compensation, and valuation allowance relating to the Company's deferred tax assets. Management believes that its estimates and assumptions are reasonable, based on information that is available at the time they are made.

***Concentration Risks***

During the nine months ended September 30, 2019, the Company's revenue had a concentration of 100% from one grant. The concentration of the Company's revenue creates a potential risk to future working capital in the event that the Company is not able to continue receiving the grant revenue.

***Joint Venture***

On June 18, 2019, the Company, along with MJNA, which is a significant shareholder, and AXIM biotechnologies, whose president is affiliated with a shareholder, entered into a joint venture agreement with an industrial hemp production farm for the supply of certain industrial hemp CBD crops. The purpose of the joint venture is to share in the harvested yield of the hemp production which the Company hopes to result in a steady supply of industrial hemp CBD for research and development purposes. The Company accounts for its participation in the joint venture under the equity method of accounting.

***Revenue Recognition***

The FASB issued Accounting Standards Update ("ASU") No. 2014-09, codified as ASC 606: Revenue from Contracts with Customers, which provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The Company adopted ASC 606 effective January 1, 2018, using modified retrospective basis and the cumulative effect was immaterial to the consolidated financial statements.

Revenue consists of research funding from the Company's National Institute of Health ("NIH") Grant. Grant revenue is recognized when qualifying costs are incurred and there is reasonable assurance that the conditions of the award have been met for collection. Proceeds received prior to the costs being incurred or the conditions of the award being met are recognized as deferred revenue until the services are performed and the conditions of the award are met.

***Stock Based Compensation***

The Company accounts for share-based compensation in accordance with the fair value recognition provision of FASB ASC 718, *Compensation – Stock Compensation* ("ASC 718"), prescribes accounting and reporting standards for all share-based payment transactions in which employee services are acquired. Transactions include incurring liabilities, or issuing or offering to issue shares, options, and other equity instruments such as employee stock ownership plans and stock appreciation rights. Share-based payments to employees, including grants of employee stock options, are recognized as compensation expense in the consolidated financial statements based on the estimated grant date fair values. That expense is recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

The Company accounts for stock-based compensation issued to non-employees and consultants in accordance with the provisions of FASB ASC 505, *Equity-based Payments to Non-Employees* ("ASC 505"). Measurement of share-based payment transactions with non-employees is based on the fair value of whichever is more reliably measurable: (a) the goods or services received; or (b) the equity instruments issued. The fair value of the share-based payment transaction is determined at the earlier of performance commitment date or performance completion date.

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**Net Income (Loss) per Share**

Basic net loss per share is calculated by dividing the net loss for the period by the weighted-average number of common shares outstanding during the period. Diluted net income per share is calculated by dividing income for the period by the weighted-average number of common shares outstanding during the period, increased by potentially dilutive common shares ("dilutive securities") that were outstanding during the period. Dilutive securities include stock options and warrants granted, convertible debt, and convertible preferred stock.

The weighted average number of common stock equivalents not included in diluted income per share, because the effects are anti-dilutive, was 4,013,729 for the three and nine months ended September 30, 2019.

In accordance with ASC 260, "Earnings Per Share", the following table reconciles basic shares outstanding to fully diluted shares outstanding for the nine months ended September 30, 2018:

	<b>September 30, 2018</b>
Weighted average number of common shares outstanding - Basic	62,585,619
Potentially dilutive common stock equivalents	5,243,333
Weighted average number of common and equivalent shares outstanding-Diluted	67,828,952

Common stock equivalents are included in the diluted income per share calculation only when option exercise prices are lower than the average market price of the common shares for the period presented. One hundred thousand (100,000) options were not included in the calculation of net loss per common share for the three and nine months ended September 30, 2019 and 2018 because their effect would be anti-dilutive.

The weighted average number of common stock equivalents not included in diluted income per share, because the effects are anti-dilutive, was 5,343,333 for the three months ended September 30, 2018.

**Research and Development**

In accordance with FASB ASC 730, *Research and Development* ("ASC 730") research and development ("R&D") costs are expensed when incurred. R&D costs include supplies, clinical trial and related clinical manufacturing costs, contract and other outside service and facilities and overhead costs. Total R&D costs for the three months ended September 30, 2019, and 2018, were \$189,443 and \$67,059, respectively. Total R&D costs for the nine months ended September 30, 2019, and 2018, were \$439,680 and \$125,696, respectively.

**Recently Issued Authoritative Guidance**

In February 2016, the FASB issued ASU, Leases, which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019, using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients and elected the following accounting policies related to this standard update:

- The option to not reassess prior conclusions related to the identification, classification and accounting for initial direct costs for leases that commenced prior to January 1, 2019.
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for certain equipment lease asset categories such as freight car, vehicles and work equipment.
- The package of practical expedients applied to all of its leases, including (i) not reassessing whether any expired or existing contracts are or contain leases, (ii) not reassessing the lease classification for any expired or existing leases, and (iii) not reassessing initial direct costs for any existing leases.

The Company has inventoried all leases where the Company is a lessee as of the initial date of application, and has examined other contracts with suppliers, vendors, customers and other outside parties to identify whether such contracts contain an embedded lease as defined under the new guidance. The Company's lease population comprises of an office and lab, which is immaterial to the consolidated financial statements.

As a result of the above, the adoption of ASC 842 did not have a material effect on the financial statements. The Company will review for the existence of embedded leases in future agreements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. This standard is effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted as long as ASU 2014-09 has been adopted. The Company adopted the guidance on January 1, 2019. The adoption did not have a material impact on our consolidated financial statements.

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**NOTE 3 – GOING CONCERN AND MANAGEMENT’S LIQUIDITY PLANS**

The Company’s condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in our accompanying condensed consolidated financial statements, the Company has had a net loss from operations of \$1,824,987 and \$557,948 for the nine months ended September 30, 2019, and 2018, respectively. The net cash used in operations were \$2,000,012 and \$762,947 for the nine months ended September 30, 2019, and 2018, respectively. Additionally, the Company had an accumulated deficit of \$7,764,635 at September 30, 2019, and has not yet established an adequate ongoing source of revenues sufficient to cover its operating costs and to allow it to continue as a going concern.

As of September 30, 2019, we had \$120,550 in cash and cash equivalents. Additionally, we had \$395,205 in marketable securities (available for sale). Management plans to raise additional capital through the sale of our marketable securities. We expect that between our existing cash, cash equivalents and marketable securities, we will be able to sufficiently fund our operations and capital requirements for the next 12 months.

The Company’s history of recurring losses, and uncertainties as to whether its operations will become profitable and generate operating cash flows, raise substantial doubt about its ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

**NOTE 4 – FAIR VALUE MEASUREMENTS**

The Company follows FASB ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”) to measure and disclose the fair value of its financial instruments. ASC 820 establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The three levels of fair value hierarchy defined by ASC 820 are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally unobservable inputs and not corroborated by market data.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, and at least one significant model assumption or input is unobservable.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The carrying amounts reported in the Company’s consolidated financial statements for cash, accounts payable and accrued expenses approximate their fair value because of the immediate or short-term nature of these financial instruments.

Transactions involving related parties cannot be presumed to be carried out on an arm’s-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm’s-length transactions unless such representations can be substantiated.

On March 7, 2014, Kannalife Sciences, Inc. (“Kannalife”) entered into an agreement with General Hemp LLC (“General Hemp”) through its wholly-owned subsidiary, Kannaway LLC (“Kannaway”), for certain rights and agreements to where each company would exchange 4.99% of each company’s equity, by way of a stock swap. As such, Kannalife would receive a 4.99% equity stake in Kannaway, and Kannaway would receive 6,408,980 shares of restricted common stock of Kannalife.

On or about April 2014, Kannalife delivered 6,408,980 of the aforementioned Kannalife restricted common stock to General Hemp on behalf of Kannaway, and such shares were made to Kannaway as the beneficiary. The Company recorded the fair market value of the common stock at \$256,359 or \$0.04 per share. The Company valued the shares based upon other transactions of the Company’s common stock around the same time frame. The Company accounted for the transaction as a cost investment.

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On or about December 2015, Medical Marijuana, Inc. ("MJNA") purchased Kannaway from General Hemp for which due to a dispute between the Company and General Hemp, the Company wasn't provided any of the consideration. On June 1, 2018, the Company received 41,583,333 shares of MJNA common stock pursuant to a settlement agreement effective July 15, 2017. MJNA is a significant shareholder of the Company, and their Chief Executive Officer is also on the Company's Board of Directors.

The following table presents assets that are measured and recognized at fair value as of September 30, 2019, on a recurring basis:

	September 30, 2019			Total Carrying Value
	Level 1	Level 2	Level 3	
Marketable securities – Medical Marijuana, Inc.	\$ 395,205	—	—	\$ 395,205

**NOTE 5 – ACCRUED PAYROLL AND PAYROLL TAXES**

Accrued payroll and payroll taxes at September 30, 2019, and December 31, 2018, consisted of the following:

	2019	2018
Payroll	\$ —	\$ —
Payroll taxes	247,074	246,067
Totals	\$ 247,074	\$ 246,067

As of September 30, 2019, and December 31, 2018, the Company had accrued payroll taxes in connection with salaries paid and accrued to four officers of the Company.

In July of 2018, the Company entered into a new employment agreement with its CEO. The initial term of the agreement was for two years, and the agreement automatically renews for successive one year terms.

In July of 2018, the Company entered into new employment agreements with three officers. The initial term of these agreements were for one year, and these agreements automatically renew for successive six month terms.

See Note 14 for discussion of accrued payroll converted into common stock.

**NOTE 6 – NOTES PAYABLE**

During the year ended December 31, 2017, the Company borrowed \$367,500 and issued a promissory note with a maturity date of October 18, 2017. This note was later amended to extend the maturity to April 18, 2019. During the year ended December 31, 2018, the Company borrowed an additional \$352,500 and issued a promissory note with a maturity date of April 18, 2019. These loans incurred 3% interest per annum. On June 29, 2018, these notes were amended to extend the maturity date to July 1, 2020, and the interest rate was changed to 8% per annum. All accrued interest prior to the amendment date was forgiven. Accrued interest related to these notes is \$36,690 and \$24,460 as of September 30, 2019, and December 31, 2018, respectively.

Upon the consolidation of the Company and Kannalife, \$100,000 of the above-mentioned borrowings was eliminated due to it being an intercompany transaction. The total, above mentioned, notes payable due was \$620,000 as of September 30, 2019, and December 31, 2018.

Total interest expense on notes payable amounted to \$12,230 and \$4,441 for the three months ended September 30, 2019, and 2018, respectively. Total interest expense on notes payable amounted to \$36,690 and \$12,591 for the nine months ended September 30, 2019, and 2018, respectively.

**NOTE 7 – NOTES PAYABLE – RELATED PARTY**

Prior to the share exchange agreement, the Company borrowed \$25,822 and issued a promissory note with a maturity date of March 31, 2020. Additionally, the note holder advanced the Company \$16,270 for working capital. The loans represent working capital advances from shareholders, bear interest at 0.5%, and grant a security interest in the Company's assets as collateral. In March 2019, this note was amended and is now non-interest bearing. Accrued interest related to this note is \$226 as of September 30, 2019, and December 31, 2018.

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**NOTE 8 – CONVERTIBLE NOTES PAYABLE**

On May 15, 2015, the Company borrowed \$35,000 and issued a convertible promissory note with a maturity date of April 30, 2016. The loan incurs 10% interest per annum. This note is convertible to the Company's common stock at a price of \$1.00 per share. In addition, the Company issued 17,500 warrants to purchase common stock with an exercise price of \$1.50 per share and a term of two years. These warrants were valued at \$7,525 on a relative fair value basis and were recorded as a debt discount to be amortized over the term. See below for discussion of settlement of liability through share exchange.

On August 13, 2015, the Company borrowed \$50,000 and issued a convertible promissory note with a maturity date of August 12, 2016. The loan incurs 10% interest per annum and increases to 17% per annum in the event of a default. This note is convertible to the Company's common stock at a price of \$1.00 per share. In addition, the Company issued 25,000 warrants to purchase common stock with an exercise price of \$1.50 per share and a term of two years. These warrants were valued at \$10,751 on a relative fair value basis and were recorded as a debt discount to be amortized over the term. See below for discussion of settlement of liability through share exchange.

On November 25, 2015, the Company borrowed \$100,000 and issued a convertible promissory note with a maturity date of November 24, 2016. The loan incurs 10% interest per annum and increases to 14% per annum in the event of a default. This note is convertible to the Company's common stock at a price of \$1.00 per share. In addition, the Company issued 50,000 warrants to purchase common stock with an exercise price of \$1.50 per share and a term of two years. These warrants were valued at \$21,500 on a relative fair value basis and were recorded as a debt discount to be amortized over the term. See below for discussion of settlement of liability through share exchange.

Prior to the Share Exchange, the Company issued a convertible note to an investor, face value of \$500,000, in exchange for \$500,000 in cash. The note is unsecured, bears interest at the rate of 3% per annum and matures on February 16, 2030. The note is convertible into common stock of the Company at \$0.10 per share at any time at the option of the holder, subject to a 4.9% blocking provision which prohibits the holder from converting into common stock of the Company if such conversion results in the holder owning greater than 4.9% of the outstanding common stock of the Company after giving effect to the conversion. See below for discussion of settlement of liability through share exchange. On September 26, 2019, the Company issued 1,500,000 shares of common stock for the conversion of \$123,627 convertible notes payable and \$26,373 of related accrued interest. The outstanding balance on this convertible note after the conversion is \$376,373.

On January 3, 2018, prior to the Share Exchange, the Company issued 563,063 shares of common stock (on a post-Share Exchange basis) for the conversion of \$236,104 convertible notes payable and related accrued interest.

The Company determined that the transaction should be recorded at fair value due to the difference between the conversion price and the price per the agreements.

**NOTE 9 – CONVERTIBLE NOTES PAYABLE - RELATED PARTY**

On December 27, 2014, the Company borrowed \$150,000 from a stockholder and issued a convertible promissory note with a maturity date of December 31, 2015. The loan incurs 10% interest per annum and increases to 17% per annum in the event of a default. This note is convertible to the Company's common stock at a price of \$1.00 per share. See below for discussion of settlement of liability through share exchange.

During the year ended December 31, 2015, the Company borrowed \$120,000 from the Chief Executive Officer and issued convertible promissory notes that are due on demand. The loans incur 10% interest per annum. These notes are convertible to the Company's common stock at a price of \$1.00 per share.

On November 20, 2015, the Company borrowed \$5,000 from the Chief Executive Officer and issued a convertible promissory note that is due on demand. The loan incurs 10% interest per annum. This note is convertible to the Company's common stock at a price of \$0.40 per share.

During the year ended December 31, 2016, the Company borrowed \$15,000 from the Chief Executive Officer and issued convertible promissory notes that are due on demand. The loans incur 10% interest per annum. These notes are convertible to the Company's common stock at a price of \$0.40 per share.

During the year ended December 31, 2016, the Company borrowed \$10,000 from the Chief Executive Officer and issued convertible promissory notes with a maturity date of December 31, 2016. The loans incur 10% interest per annum and increases to 17% per annum in the event of a default. These notes are convertible to the Company's common stock at a price of \$0.40 per share.

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During the year ended December 31, 2017, the Company borrowed \$20,000 from the Chief Executive Officer and issued convertible promissory notes with a maturity date of December 31, 2017. The loans incur 10% interest per annum and increases to 17% per annum in the event of a default. These notes are convertible to the Company's common stock at a price of \$0.40 per share.

During the year ended December 31, 2017, the Company repaid \$23,828 of principal and \$16,522 of accrued interest towards the outstanding notes payable.

On January 3, 2018, prior to the Share Exchange, the Company converted these notes into 973,946 shares of common stock (on a post-Share Exchange basis) for the conversion of \$356,176 convertible notes payable and related accrued interest. The difference of the \$58,300 balance of the notes and the fair value of the shares issued was recorded as a loss on conversion of debt.

The Company determined that the transaction should be recorded at fair value due to the difference between the conversion price and the price per the agreements.

**NOTE 10 – CAPITAL LEASE OBLIGATIONS**

In September 2019, the Company entered into a lease agreement with Thermo Fisher Scientific to acquire equipment with 48 monthly payments of \$941, payable through September 1, 2023, with an effective interest rate of 12% per annum. The outstanding balance of this capital lease was \$35,886 as of September 30, 2019.

**NOTE 11 – COMMITMENTS AND CONTINGENCIES**

***Legal Proceedings***

From time to time, the Company may get involved in legal proceedings arising in the ordinary course of business. Other than as set forth in "Legal Proceedings" in Part II below, the Company believes there is no litigation pending that could have, individually or in the aggregate, a material adverse effect on its results of operations or financial condition.

***Occupancy Leases***

On April 1, 2014, the Company entered into a month-to-month lease arrangement for office space. The monthly rent payment is \$5,400, and the security deposit is \$15,000.

On September 15, 2015, the Company entered into a one year lease arrangement for office space. The Company has amended this lease to extend the term through September 30, 2019. The monthly rent payment is \$249, and the security deposit is \$183.

On February 1, 2018, the Company entered into a month-to-month lease arrangement for laboratory space. The monthly rent payment is \$500.

On July 1, 2018, the Company entered into a one year lease arrangement for office space, with the option to renew the lease annually. The Company has amended this lease to extend the term through July 1, 2020. On September 1, 2018, the Company subleased this office space to a third party. The Sublessee will pay 100% of the rent for months September through November 2018, and will pay 50% of the rent until expiration of the lease. The monthly rent payment is \$2,723, and the security deposit is \$2,121.

***Royalty Agreements***

On June 12, 2012, the Company entered into a Patent License Agreement (the "License Agreement") with agencies of the United States Public Health Services within the Department of Health and Human Services ("PHS"). Under the License Agreement, PHS granted the Company an exclusive right to use and develop certain patents relating to Cannabinoids as Antioxidants and Neuroprotectants (the "License"). In exchange for the License, the Company has agreed to the following payments:

- a \$30,000 license issue royalty within 90 days of the execution of the agreement
- a minimum annual royalty in the amount of \$10,000
- 3% royalty on net sales from any sales of licensed products or practice of licensed processes
- milestone payment of \$40,000 upon initiation of first Phase I clinical trial
- milestone payment of \$100,000 upon initiation of first Phase II clinical trial
- milestone payment of \$250,000 upon completion of first Phase III clinical trial
- milestone payment of \$500,000 upon first marketing approval by FDA
- a sublicensing royalty of 12% on the fair market value of any consideration received for granting each sublicense

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On December 31, 2014, the Company executed five exclusive pharmaceutical license agreements with the Company's CEO, the Company's CMO, three advisory board members of the Company, and an unrelated third party. These agreements provide the Company the worldwide exclusive rights to certain drug technologies and methods (and systems) for collection, processing and use of data for the dispensing of phyto-medical and botanically derived materials for consumption. The license agreements granted the Company the rights to develop, market, make, use, and sell certain drug formulations, which are applied to humans through the use of certain drug technology. In return for these exclusive rights from the inventors, the Company has agreed to compensate the inventors under the agreements with royalties ranging from 1.5% to 2.5% on all net sales by the Company of licensed products covered by a valid claim of a patent or patent application of the inventor patent rights. Additionally, the Company retains the rights to sublicense the drug formulations, and upon such sublicense, shall pay the inventors from 1.5% up to 5% of all royalties and sublicense fees paid to the Company on account of sublicenses under the inventor patent rights and inventor technology rights, less all appropriate expenses associated with such sublicenses incurred by the Company. However, if the inventor supplies licensed products to sublicensees of the Company pursuant to such sublicenses, the inventor shall supply such licensed products at its cost. Prior to the Share Exchange, this royalty agreement was terminated.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Company's Chief Executive Officer shares the use of the leased office space for personal living quarters.

From time to time, the Company sends money to Golden Gate Capital ("GGCP"), a company owned by our CEO, for the advances of certain expenses and to be deposited into the bank account of Kannalife. Due to the timing of the funds transferred and expenses incurred, at times, there remains a balance due from GGCP. As of September 30, 2019, \$0 is due from GGCP.

See Notes 7, 9 and 14 for additional related party transactions.

**NOTE 13 – MARKETABLE SECURITY**

On June 1, 2018, the Company received 41,583,333 shares of common stock of Medical Marijuana, Inc. ("MJNA") pursuant to a settlement agreement. In 2014, the Company entered into a revenue sharing agreement with Kannaway LLC, whereas, among the considerations and obligations, the parties agreed to a share exchange, whereby the Company issued 6,408,980 shares of its common stock in exchange for 4.99% ownership of Kannaway. A significant shareholder of the Company owned the remaining ownership of Kannaway LLC. Subsequently, Kannaway was sold by its parent company to MJNA for 833,333,333 shares of MJNA common stock. The settlement agreement called for the release of all obligations in exchange for the issuance of 41,583,333 shares of common stock in MJNA to the Company.

The investment in MJNA has been recorded as an investment in non-consolidated entities, and is revalued every quarter with fluctuations in fair value recorded to earnings. The fair value of the investment is based on the closing price of the shares reported on the principal stock exchange on which they are traded. At September 30, 2019, the Company held 11,939,732 shares of MJNA which traded at a closing price of \$0.0331, or value of \$395,205. In the following table, gains/losses on equity securities sold in the period reflect the difference between proceeds from sales and the fair value of the equity security sold at the beginning of the period or the purchase date, if later. See Note 4 for additional information.

The following table summarizes the gains and losses recognized during the three month period ending September 30, 2019:

Net gains and (losses) recognized during the period on equity securities	\$	(301,661)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period		55,702
Unrealized gains and (losses) recognized during the period on equity securities still held at the reporting date	\$	<u>(245,959)</u>

The following table summarizes the gains and losses recognized during the nine month period ending September 30, 2019:

Net gains and (losses) recognized during the period on equity securities	\$	(844,671)
Less: Net gains and (losses) recognized during the period on equity securities sold during the period		146,713
Unrealized gains and (losses) recognized during the period on equity securities still held at the reporting date	\$	<u>(697,958)</u>

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**NOTE 14 – STOCKHOLDERS' EQUITY**

***Series A Preferred Stock – Kannalife Pre-Share Exchange***

In July 2018, prior to the Share Exchange, the Company converted 4,893,510 shares of preferred stock into 4,893,510 shares of common stock (on a post-Share Exchange basis).

***Series A Preferred Stock***

Effective May 3, 2018, the Company's Board of Directors authorized and designated 75 shares of the Company's Preferred Stock as Series A Preferred Stock. Each share of the Series A Preferred Stock is entitled to a liquidation preference of \$1,000 per share, and is convertible into 1,000 shares of the Company's common stock. The holders of a majority of the Series A Preferred Stock are entitled to elect up to four (4) directors to the Company's board of directors, and have preferential rights in regard to the election of Series A directors. In all other voting matters, the holders of Series A Preferred Stock are entitled to cast 1,000 votes per share.

In July 2018, the Company issued 75 shares of Series A Preferred Stock to Naturewell, Inc., an entity controlled by the former CEO of TYG Solutions, Inc., in exchange for \$75,000.

***Series B Preferred Stock***

Effective May 3, 2018, the Company's Board of Directors authorized and designated 75 shares of the Company's Preferred Stock as Series B Preferred Stock. Each share of the Series B Preferred Stock is entitled to a liquidation preference of \$1,000 per share, and is convertible into 1,000 shares of the Company's common stock. The holders of a majority of the Series B Preferred Stock are entitled to elect up to three (3) directors to the Company's board of directors, and have preferential rights in regard to the election of Series B directors. In all other voting matters, the holders of Series B Preferred Stock are entitled to cast 1,000 votes per share.

In July 2018, the Company issued 75 shares of Series B Preferred Stock to our CEO in exchange for \$75,000.

***Common Stock***

The Company is authorized to issue 200,000,000 shares of common stock, par value \$0.0001. All common stock shares have equal voting rights, are non-assessable and have one vote per share. Voting rights are not cumulative, and therefore, the holders of more than 50% of the common stock could, if they choose to do so, elect all of the directors of the Company, subject to the rights of the preferred stockholders.

On January 3, 2018, prior to the Share Exchange, the Company issued 5,505,200 shares of common stock (on a post-Share Exchange basis) to four officers, valued at \$2,342,813, for the conversion of accrued salaries. The difference of \$469,997 between the balance of accrued salaries and the fair value of the shares issued was recorded as a capital contribution recorded within additional paid-in capital. The transaction was viewed as being on behalf of the Company in connection with the pending share exchange transaction.

In July 2018, the Company issued 2,030,000 shares of common stock to an entity commonly controlled by the \$500,000 convertible note holder in exchange for \$203,000.

In August 2019, the Company issued 950,000 shares of common stock at the price of \$0.10 per share to board members for general compensation for services rendered.

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In August 2019, the Company issued 500,000 shares of common stock at the price of \$0.10 per share to an investor relations consultant for services rendered.

In August 2019, the Company issued 150,000 shares of common stock at the price of \$0.10 per share to a product development consultant for services rendered.

In August 2019, the Company issued 400,000 shares of common stock at the price of \$0.10 per share to a marketing consultant for services rendered.

In August 2019, the Company issued 700,000 shares of common stock at the price of \$0.10 per share to consultants for general compensation for services rendered. This compensation is included in research and development on the condensed consolidated statement of operations.

On August 30, 2019, the Company issued 171,000 shares of common stock at a price of \$0.07 per share to acquire the remaining non-controlling interest in Kannalife Sciences, Inc., bringing our ownership interest from 99.7% to 100%.

On September 26, 2019, the Company issued 1,500,000 shares of common stock at a price of \$0.10 per share for the conversion of \$123,627 convertible notes payable and \$26,373 of related accrued interest.

As of September 30, 2019, and December 31, 2018, there were 74,225,141 and 69,854,141 shares of common stock issued and outstanding, respectively.

See Note 8 and 9 for discussion of the conversion of notes payable and accrued interest into common stock.

The Company determined fair value of its shares of common and preferred stock based on the price at which the Company was selling its shares of common and preferred stock to third party investors and based on the conversion price of convertible debt.

**Stock Based Compensation**

The following table shows share-based compensation expense included in the condensed consolidated statement of operations for the three and nine month periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Research and Development	\$ 90,000	\$ —	\$ 90,000	\$ —
General and Administrative	\$ 180,840	\$ 2,519	\$ 185,878	\$ 7,558

**Stock Options**

On September 1, 2017, the Company entered into an agreement for consulting services. As compensation, the Company issued a stock option to purchase 100,000 shares of common stock at a price of \$2.00 per share and is exercisable for five years. The stock option vests in equal monthly installments over 24 months. These options were valued at \$20,154 using a Black-Scholes Options Pricing Model.

**NOTE 15 – SUBSEQUENT EVENTS**

From October 1, 2019 through the issuance of these condensed consolidated financial statements, the Company sold an additional 6,839,732 shares of MJNA stock. The net proceeds from these sales were \$165,276.

The following table summarizes the gains and losses recognized on marketable securities from October 1, 2019 through the issuance of these condensed consolidated financial statements:

Net gains and losses recognized during the period on equity securities	\$ (76,929)
Less: Net gains and losses recognized during the period on equity securities sold during the period	61,119
Unrealized gains and losses recognized during the period on equity securities still held at the reporting date	<u>\$ (15,810)</u>

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this quarterly report. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" in our Registration Statement on Form S-1, as amended, and Form 10-K filed with the Securities and Exchange Commission on August 8, 2019, and April 9, 2019, respectively.*

### **Forward-Looking Statements**

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. All statements other than statements of historical fact contained in this quarterly report, including statements regarding our future operating results, financial position and cash flows, our business strategy and plans and our objectives for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. This quarterly report on Form 10-Q also contains estimates and other statistical data made by independent parties and by us relating to market size and growth and other data about our industry. This data involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. In addition, projections, assumptions and estimates of our future performance and the future performance of the markets in which we operate are necessarily subject to a high degree of uncertainty and risk. In some cases, you can identify forward-looking statements by terms such as "may," "will," "would," "could," "should," "expect," "plan," "anticipate," "could," "intend," "target," "project," "contemplate," "believe," "estimate," "predict," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this quarterly report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, operating results, business strategy, short-term and long-term business operations and objectives. These forward looking statements speak only as of the date of this quarterly report and are subject to a number of risks, uncertainties and assumptions. The events and circumstances reflected in our forward-looking statements may not be achieved or occur, and actual results could differ materially from those projected in the forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

### **Business Developments**

The Company was originally incorporated in the State of Delaware on March 25, 2013, under the name of TYG Solutions Corp. Our original business plan was to develop iPhone and Android smartphone apps for companies who need an app for their internal and external operations. We subsequently expanded our operations to offering corporate website design services.

On July 25, 2018, the Company entered into a Share Exchange Agreement with Kannalife Sciences, Inc., a Delaware corporation ("Kannalife"), and certain stockholders of Kannalife (the "Kannalife Stockholders"). Pursuant to the terms of the Share Exchange Agreement, the Company acquired nearly all of the issued and outstanding shares of Kannalife by means of a share exchange with the Kannalife Stockholders in exchange for newly issued shares of common stock of the Company (the "Share Exchange"). As a result of the Share Exchange, Kannalife became a wholly-owned subsidiary of the Company. The business operations of the Company shall continue uninterrupted, and, by virtue of the Share Exchange, the Company will acquire the business of Kannalife including all of its assets. The Share Exchange was accounted for as a reverse acquisition and change in reporting entity, whereby Kannalife was the accounting acquirer.

Kannalife was incorporated in the State of Delaware on August 11, 2010. Kannalife is a developmental stage phyto-medical/pharmaceutical and drug discovery company that specializes in the research, development of cannabinoid and cannabinoid-based therapeutic products derived from synthetic and botanical sources, including the Cannabis "taxa" (the word "taxa" is the plural of "taxon" which defines a group of one or more populations of an organism or organisms to form a unit.)

On November 9, 2018, the Company filed an amendment to its certificate of incorporation with the Delaware Secretary of State to change its name to Kannalife, Inc. The Company concurrently submitted a request to FINRA for approval of the name change as well as a ticker symbol change. The Company's name change and ticker symbol change was reviewed and processed by FINRA and went effective January 17, 2019.

## Business Overview

As a result of the Share Exchange, the Company's core businesses are comprised of the following:

- A drug development company focused on the research and development (R&D) of synthetic and phyto-medical products from:
  - o naturally recurring sources, including but not limited to cannabis, hemp, and other similar species of plantae;
  - o semi-synthetic sources; and
  - o synthetic and bio-synthetic sources.
- Drug discovery platform to evaluate and potentially treat neurological and oxidative stress related disorders such as Overt Hepatic Encephalopathy ("OHE"), Chronic Traumatic Encephalopathy ("CTE") and Chemotherapy Induced Peripheral Neuropathy ("CIPN ") with high quality assured, quality controlled cGMP pharmaceutical grade semi-synthetic and synthetic cannabinoids, cannabidiol ("CBD"), and cannabidiol-like molecules.
- Topical skin care pre-clinical program designed to some of its patented, proprietary cannabidiol-derived new chemical entities ("NCEs"), for use as topical solutions, ointments, and creams for disorders such as diabetic neuropathies, diabetic ulcers, and for use as an anti-pruritic. Anti-pruritics are known as anti-itch drugs and medications that inhibit the itching often associated with a variety of disorders and diseases.

The Company is primarily involved in the research and development of novel therapeutic agents for use in and as U.S. Food and Drug Administration ("FDA") approved ethical pharmaceuticals (available by doctor prescription); FDA Monograph topical solutions; and Personal Care Products Council ("PCPC") / International Nomenclature of Cosmetic Ingredients ("INCI"). The primary focus of the Company's research and development revolves around its patented, proprietary cannabidiol-derived new chemical entities and cannabidiol. In preclinical testing, certain molecules under U.S. Patent 9,611,213 were screened for neuroprotection, and may have the potential mechanism of action for reducing inflammation and neuropathic pain. These molecules indicate that they are more soluble than cannabidiol, also deemed a neuroprotectant with potential anti-inflammatory properties. A molecule that is potentially more water soluble than cannabidiol in this regard may be good candidate(s) for use in topical applications.

The Company has been the only licensee from the National Institutes of Health ("NIH") for the licensed use of the U.S. Government's patent 6,630,507 – "Cannabinoids as Antioxidants and Neuroprotectants" (the "507 Patent") in the disease indications of hepatic encephalopathy ("HE") and Chronic Traumatic Encephalopathy ("CTE"). Having been the only licensee to the '507 Patent has given the Company an early start in the research and development of cannabinoid therapeutics within this emerging market. The Company is the only company that has had use of the '507 Patent and corresponding licenses from NIH-OTT.

The jurisdictions in which the '507 Patent is valid are: the U.S., the U.K., Ireland, the E.U., and Australia. The patent life in these jurisdictions are good until April 21, 2019.

The Company believes that these licenses with the NIH have given the Company, through the years, the preclinical lead time to evaluate both HE and CTE without stress of competition. The Company also believes that such advances in preclinical have led to a drug development program regarding cannabidiol based therapeutics that focuses on neurodegenerative and oxidative stress related diseases described in the '507 Patent, and also the development of the Company's own intellectual property underlying U.S. Patents 9,611,213 and 10,004,722.

Furthermore, it is on the Company's belief and knowledge that while the U.S. Government patent 6,630,507 expired on April 21, 2019, there may be additional opportunities related to the original licensing of the '507 Patent in which the Company may engage with the NIH and certain collaborators of the aforementioned patent to enter into a Cooperative Research and Development Agreement ("CRADA") with the NIH for one or more disease indications underlying the '507 Patent, including but not limited to HE and CTE. Moreover, the weight of the Company's future success regarding its drug development program in relation to cannabidiol based therapeutics is not centered on the '507 Patent, but rather its own intellectual property underlying U.S. Patents 9,611,213 and 10,004,722.

We intend to study KLS-13019 in patients with chemotherapy induced neuropathic pain, and we intend to study KLS-13023 in patients with mild traumatic brain injury.

We believe these product candidates will provide new treatment options for patients, as well as additional treatment options for patients not currently receiving adequate relief from current treatment regimens.

We are still conducting pre-clinical studies and have not yet commenced our clinical program or tested KLS-13019 or KLS-13023 in humans. For KLS-13019, we plan to conduct Phase 1, and possibly Phase 2, clinical trials in Australia, subject to applicable regulatory approval. We plan to conduct our Phase 1 clinical trials for KLS-13023 in Australia, subject to applicable regulatory approval. We plan to submit New Drug Applications (NDAs) for KLS-13019 and KLS-13023 to the FDA upon completion of all requisite clinical trials. We expect to initiate clinical trials for KLS-13019 and KLS-13023 in the second half of 2019.

We plan to conduct our Phase 1, and possibly Phase 2, clinical trials for KLS-13019 in Australia, subject to applicable regulatory approval, and do not expect at this time to file an investigational new drug application, or IND, with the U.S. Food and Drug Administration, or the FDA, prior to the commencement of those clinical trials. We must file an IND with the FDA and receive approval from the U.S. Drug Enforcement Agency, or DEA, prior to commencement of any clinical trials in the United States.

We plan to seek orphan drug designation for KLS-13023 in Overt Hepatic Encephalopathy.

Cannabinoids are a class of molecules derived from Cannabis plants. The two primary cannabinoids contained in Cannabis are cannabidiol, or CBD, and D9-tetrahydrocannabinol, or THC. Clinical and preclinical data suggest that CBD has positive effects on treating refractory epilepsy, FXS and arthritis, and THC has positive effects on treating pain. Interest in cannabinoid therapeutics has increased significantly over the past several years as preclinical and clinical data has emerged highlighting the potential efficacy and safety benefits of cannabinoid therapeutics. The cannabinoid therapeutics market is expected to grow significantly due to the potential benefits these products may provide over existing therapies. In addition, KLS-13019 and KLS-13023 may potentially offer first-line therapies to patients suffering from chemotherapy induced peripheral neuropathy and mild traumatic brain injury, respectively.

KLS-13023 is a target drug candidate that includes a synthetic CBD formulated in a gel capsule designed for potential use in humans. The formulation of this product is proprietary and currently held as a trade secret of the Company. CBD is the primary non-psychoactive component of Cannabis. KLS-13023 has undergone a manufacturing feasibility study to improve some of the limitations associated with CBD, including but not limited to CBD's low bioavailability and limited drug like properties and improvement of the delivery of CBD through the first pass in the gut and into the circulatory system.

In addition to KLS-13023, the Company has developed a proprietary patented new chemical entity (NCE), KLS-13019. This NCE is a cannabidiol derived molecule which has undergone pre-clinical studies for the treatment of overt hepatic encephalopathy and chemotherapy induced peripheral neuropathy.

In pre-clinical studies, KLS-13019's advanced formulation is designed to improve on some of the limitations associated with CBD, including but not limited to CBD's low bioavailability and limited drug like properties.

These pre-clinical studies suggest increased bioavailability, consistent plasma levels and the avoidance of first-pass liver metabolism. In addition, an *in vitro* study performed by us demonstrated that CBD is degraded to THC in an acidic environment such as the stomach.

The Company has filed for orphan designation with the U.S. Food and Drug Administration ("FDA") for the use of CBD in the treatment of overt hepatic encephalopathy ("OHE"). The Company has received notice from the FDA that its current application qualifies for a patient population of less than 200,000, but is currently in abeyance to resolve clinical use of CBD in this sub-set of hepatic encephalopathy. The Company has retained Côté Orphan to continue the process of responding to the FDA's abeyance letter. On November 5, 2018, the FDA has granted the Company a one year extension to respond to the abeyance letter until November 30, 2019.

KLS-13023 is a proprietary formulation containing CBD that intends to enable more effective delivery of CBD via a gel capsule. The use of CBD in this form remains patent-protected via the '507 Patent through 2019. In addition, we expect that KLS-13023 will be classified by the FDA as a new chemical entity, or NCE. In our preclinical animal studies, KLS-13023 demonstrated effective intervention of neurodegeneration in the OHE disease state. Our key development programs and expected timelines for the development of KLS-13019 and KLS-13023 are shown in the table below:

#### Clinical Timelines

Product Candidate	Target Indication	Delivery Method	Current Development Status	Expected Next Steps
KLS-13019	Chemotherapy Induced Peripheral Neuropathy	Oral Gel Capsule	Preclinical	2Q20: Initiate Phase 1
	Mild Traumatic Brain Injury	Oral Gel Capsule	Preclinical	2Q21: Initiate Phase 1
KLS-13023	Overt Hepatic Encephalopathy	Oral Gel Capsule	Preclinical	4Q20: Initiate Phase 1
	Mild Traumatic Brain Injury	Oral Gel Capsule	Preclinical	2Q21: Initiate Phase 1

With respect to certain other proprietary compounds underlying U.S. Patent 9,611,213, the Company plans on pursuing topical solutions as potential relief creams and/or ointments for neuropathic pain, anti-inflammation, anti-pruritic and skin ulcers. The Company is considering commercialization routes that include, but are not limited to, filing and FDA Monograph and/or pursuing a path to the marketplace through INCI certification and registration with the PCPC. In preclinical testing, certain molecules under U.S. Patent 9,611,213 were screened for neuroprotection, and may have the potential mechanism of action for reducing inflammation and neuropathic pain. These molecules indicate that they are more soluble than cannabidiol, also deemed a neuroprotectant with potential anti-inflammatory properties. A molecule that is potentially more water soluble than cannabidiol in this regard may be good candidate(s) for use in topical applications.

The Company believes it has the sufficient capital to proceed forth with a Phase 1 human safety trial for the treatment of Chemotherapy Induced Peripheral Neuropathy. All preclinical work in this indication, including animal toxicity studies, are expected to be completed before the end of 2019. The Company plans on entering into clinical trials sometime in the first quarter 2020. Additionally, the Company believes it has the sufficient capital to proceed forth with a Phase 1 human safety trial for the treatment of Overt Hepatic Encephalopathy. All preclinical work in this indication, including animal toxicity studies, are expected to be completed before the end of 2019.

The Company intends on seeking additional capital to proceed forth with its business plan regarding additional drug pipeline opportunities.

Our net losses were \$1,086,497 and \$2,719,412 for the three and nine months ended September 30, 2019, respectively. We expect to incur losses for the foreseeable future, and we expect these losses to increase as we continue our development of, and seek regulatory approvals for, our product candidates. Because of the numerous risks and uncertainties associated with product development, we are unable to predict the timing or amount of increased expenses or when, or if, we will be able to achieve or maintain profitability.

#### Financial Operations Overview

The following discussion sets forth certain components of our statements of operations as well as factors that impact those items.

#### Revenues

Our revenues consist of state and federal research grants and fees received from research services for third-party product development. These revenues are recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable and collectability is reasonably assured.

### *Research and Development Expenses*

Our research and development expenses consist of expenses incurred in development and preclinical studies relating to our product candidates, including:

- expenses associated with preclinical development;
- personnel-related expenses, such as salaries, benefits, travel and other related expenses, including stock-based compensation;
- payments to third-party contract research organizations, or CROs, contractor laboratories and independent contractors; and
- depreciation, maintenance and other facility-related expenses.

We expense all research and development costs as incurred. Preclinical development expenses for our product candidates are a significant component of our current research and development expenses. Product candidates in later stage clinical development generally have higher research and development expenses than those in earlier stages of development, primarily due to increased size and duration of the clinical trials. We track and record information regarding external research and development expenses for each grant, study or trial that we conduct. From time to time, we intend to use third-party CROs, and have used contractor laboratories and independent contractors in preclinical studies. We recognize the expenses associated with third parties performing these services for us in our preclinical studies based on the percentage of each study completed at the end of each reporting period.

We expect that our research and development expenses in 2019 and for the next several years will be higher than in 2018 as a result of the work needed for our expected initiation of our Phase 1 clinical trials of KLS-13019 in the second half of 2019 and KLS-13023 by early 2020. These expenditures are subject to numerous uncertainties regarding timing and cost to completion. Completion of our preclinical development and clinical trials may take several years or more, and the length of time generally varies according to the type, complexity, novelty and intended use of a product candidate. The cost of clinical trials may vary significantly over the life of a project as a result of differences arising during clinical development, including, among others:

- the number of sites included in the clinical trials;
- the length of time required to enroll suitable patients;
- the size of patient populations participating in the clinical trials;
- the duration of patient follow-ups;
- the development stage of the product candidates; and
- the efficacy and safety profile of the product candidates.

Due to the early stages of our research and development, we are unable to determine the duration or completion costs of our development of KLS-13019 and KLS-13023. As a result of the difficulties of forecasting research and development costs of KLS-13019 and KLS-13023, as well as the other uncertainties discussed above, we are unable to determine when and to what extent we will generate revenues from the commercialization and sale of an approved product candidate.

### *General and Administrative Expenses*

General and administrative expenses consist primarily of salaries, benefits and other related costs, including stock-based compensation, for personnel serving in our executive, finance, accounting, legal and human resource functions. Our general and administrative expenses also include facility and related costs not included in research and development expenses, professional fees for legal services, including patent-related expenses, consulting, tax and accounting services, insurance and general corporate expenses. We expect that our general and administrative expenses will increase with the continued development and potential commercialization of our product candidates.

We expect that our general and administrative expenses in 2019 and for the next several years will be higher than in 2018 as we increase our headcount. We also anticipate increased expenses relating to our operations as a public company, including increased costs for the hiring of additional personnel, and for payment to outside consultants, including lawyers and accountants, to comply with additional regulations, corporate governance, internal control and similar requirements applicable to public companies, as well as increased costs for insurance.

### *Interest Income (Expense), net*

Interest expense consists of interest expense on our notes payable. Interest income consists primarily of interest earned on our money market bank account.

### *Income Taxes*

As of December 31, 2018, we had \$862,000 of federal operating loss carryforwards. These operating loss carryforwards will begin to expire in 2031. The Tax Reform Act of 1986, or the Act, provides for limitation on the use of net operating loss and research and development tax credit carryforwards following certain ownership changes (as defined by the Act) that could limit our ability to utilize these carryforwards. We may have experienced various ownership changes, as defined by the Act, as a result of past financings. Accordingly, our ability to utilize the aforementioned carryforwards may be limited. Additionally, U.S. tax laws limit the time during which these carryforwards may be applied against future taxes; therefore, we may not be able to take full advantage of these carryforwards for federal income tax purposes.

The closing of the share exchange transaction, together with private placements and other transactions that have occurred since our inception, may trigger, or may have already triggered, an "ownership change" pursuant to Section 382 of the Internal Revenue Code of 1986. If an ownership change is triggered, it will limit our ability to use some of our net operating loss carryforwards. In addition, since we will need to raise substantial additional funding to finance our operations, we may undergo further ownership changes in the future, which could further limit our ability to use net operating loss carryforwards. As a result, if we generate taxable income, our ability to use some of our net operating loss carryforwards to offset U.S. federal taxable income may be subject to limitations, which could result in increased future tax liability to us.

### **Critical Accounting Policies and Use of Estimates**

We have based our management's discussion and analysis of financial condition and results of operations on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates and judgments, including those related to preclinical development expenses and stock-based compensation. We base our estimates on historical experience and on various other factors that we believe to be appropriate under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully discussed in Note 2 to our condensed consolidated financial statements appearing above, we believe that the following accounting policies are critical to the process of making significant judgments and estimates in the preparation of our financial statements.

#### ***Research and Development Expenses***

We rely on third parties to conduct our preclinical studies and to provide services, including data management, statistical analysis and electronic compilation. Once our clinical trials begin, at the end of each reporting period, we will compare the payments made to each service provider to the estimated progress towards completion of the related project. Factors that we will consider in preparing these estimates include the number of patients enrolled in studies, milestones achieved and other criteria related to the efforts of our vendors. These estimates will be subject to change as additional information becomes available. Depending on the timing of payments to vendors and estimated services provided, we will record net prepaid or accrued expenses related to these costs.

#### ***Fair Value of Common Stock and Stock-Based Compensation***

We account for grants of stock options and restricted stock to employees based on their grant date fair value, and recognize compensation expense over the vesting periods. We estimate the fair value of stock options as of the date of grant using the Black-Scholes option pricing model, and we estimate the fair value of restricted stock based on the fair value of the underlying common stock as determined by our board of directors or the value of the services provided, whichever is more readily determinable. We account for stock options and restricted stock awards to non-employees using the fair value approach. Stock options and restricted stock awards to non-employees are subject to periodic revaluation over their vesting terms.

In the absence of a public trading market for our common stock, on each grant date, we develop an estimate of the fair value of our common stock for the option and restricted stock grants based in part on input from an independent third-party valuation firm. We determined the fair value of our common stock using methodologies, approaches and assumptions consistent with the AICPA Practice Guide, Valuation of Privately-Held Company Equity Securities Issued as Compensation. In addition, our board of directors considered various objective and subjective factors, along with input from management and an independent third-party valuation firm, to estimate the fair value of our common stock, including external market conditions affecting the pharmaceutical industry, trends within the pharmaceutical industry, the prices at which we sold shares of our different series of preferred stock, the superior rights and preferences of each series of preferred stock relative to our common stock at the time of each grant, our results of operations and financial position, the status of our research and development efforts and progress of our preclinical programs, our stage of development and business strategy, the lack of an active public market for our common and our preferred stock, and the likelihood of achieving a liquidity event.

#### **Results of Operations – For the Three Month Periods Ended September 30, 2019 and 2018**

##### *Revenues*

Revenues for the three months ended September 30, 2019, was \$23,968 compared to \$38,101 for the three months ended September 30, 2018. Our decrease in revenue was primarily the result of a decrease of grant revenue due to reaching the maximum amount of the grant.

##### *Research and Development Expenses*

Research and development expenses increased by \$122,384 or 183%, to \$189,443 for the three months ended September 30, 2019, from \$67,059 for the three months ended September 30, 2018. The increase was primarily the result of increased consulting and compensation expense related to increased product development activities. This is due to three quarters of research done through our sub award contractor vs two quarters of research done in 2018.

##### *General and Administrative Expenses*

General and administrative expenses increased by \$251,785 or 72%, to \$601,567 for the three months ended September 30, 2019, from \$349,782 for the three months ended September 30, 2018. This increase was due to operating as a public company, including increased costs for the hiring of additional personnel, and for payment to outside consultants, including lawyers and accountants, to comply with additional regulations, corporate governance, internal control and similar requirements applicable to public companies.

#### **Results of Operations – For the Nine Month Periods Ended September 30, 2019 and 2018**

##### *Revenues*

Revenues for the nine months ended September 30, 2019, was \$126,027 compared to \$104,965 for the nine months ended September 30, 2018. Our increase in revenue in 2019 was primarily the result of an increase of grant revenue due to more product development done by the sub contractor for research and development.

##### *Research and Development Expenses*

Research and development expenses increased by \$313,984 or 250%, to \$439,680 for the nine months ended September 30, 2019, from \$125,696 for the nine months ended September 30, 2018. The increase was primarily the result of increased consulting and compensation expense due to increased product development activities.

##### *General and Administrative Expenses*

General and administrative expenses increased by \$974,117 or 181%, to \$1,511,334 for the nine months ended September 30, 2019, from \$537,217 for the nine months ended September 30, 2018. This increase was due to operating as a public company, including increased costs for the hiring of additional personnel, and for payment to outside consultants, including lawyers and accountants, to comply with additional regulations, corporate governance, internal control and similar requirements applicable to public companies.

#### **Liquidity and Capital Resources**

Since our inception in 2010, we have devoted most of our cash resources to research and development and general and administrative activities. We have financed our operations primarily with the proceeds from the sale of preferred stock and convertible promissory notes, state and federal grants and research services. To date, we have not generated any revenues from the sale of products, and we do not anticipate generating any revenues from the sales of products for the foreseeable future. We have incurred losses and generated negative cash flows from operations since inception. As of September 30, 2019, our principal sources of liquidity were our cash and cash equivalents, which totaled \$120,550 and marketable securities, which totaled \$395,205. Our working capital deficit was \$(681,893) as of September 30, 2019.

## Equity Financings

For the nine months ended September 30, 2019, and year ended December 31, 2018, we received net proceeds of \$0 and \$352,000, respectively, from the sale of convertible notes and promissory notes. Immediately prior to the Share Exchange, the Company received proceeds of \$150,000 for the sale of 75 shares of Series A preferred stock and 75 shares of Series B preferred stock. Additionally, the Company received \$203,000 for the sale of 2,030,000 shares of common stock.

## Debt

We had the following schedule of debt as of December 31, 2018, and September 30, 2019:

	December 31, 2018	September 30, 2019
<b>Outstanding Debt Obligations:</b>		
Loan payable	\$ 620,000	\$ 620,000
Loan payable - related party	25,822	42,092
Convertible notes payable	500,000	376,373
Capital lease obligations	—	35,886
Total All Debt Obligations	<u>\$ 1,145,822</u>	<u>\$ 1,074,351</u>

In January 2018, prior to the Share Exchange, all Convertible Junior Debenture holders and all Senior Convertible Debenture holders accepted the Company's offer to exchange their debt instruments, including accrued interest thereunder for restricted common stock. The holders of the Convertible Junior Debentures, related parties, accepted a total of 973,946 shares of restricted common stock (on a post-Share Exchange basis) of the Company in exchange for the repayment of a total of \$356,176 in debt, inclusive of accrued interest of \$67,195. In addition to the conversion of the Convertible Junior Debentures, the holders of the Senior Convertible Debentures accepted a total of 563,063 shares of restricted common stock of the Company (on a post-Share Exchange basis) in exchange for the repayment of a total of \$236,184 in debt, inclusive of accrued interest of \$51,104.

In January 2018, prior to the Share Exchange, we converted outstanding accrued executive management salaries totaling \$2,812,810, which had accrued from September 2014 through December 2017, in exchange for a total of 5,505,200 shares of restricted common stock of the Company (on a post-Share Exchange basis).

On September 26, 2019, the Company issued 1,500,000 shares of common stock for the conversion of \$123,627 convertible notes payable and \$26,373 of related accrued interest.

## Future Capital Requirements

Prior to the Share Exchange, the Company issued a convertible note to an investor, face value \$500,000, in exchange for \$500,000 in cash. The note is unsecured, bears interest at the rate of 3% per annum and matures on February 16, 2030. The note is convertible into common stock of the Company at \$0.10 per share at any time at the option of the holder, subject to a 4.9% blocking provision which prohibits the holder from converting into common stock of the Company if such conversion results in the holder owning greater than 4.9% of the outstanding common stock of the Company after giving effect to the conversion. On September 26, 2019, the Company issued 1,500,000 shares of common stock for the conversion of \$123,627 convertible notes payable and \$26,373 of related accrued interest. The outstanding balance on this convertible note after the conversion is \$376,373.

We expect that our existing cash and cash equivalents and securities held for sale on the Company's consolidated balance sheet will be sufficient to fund our operations and capital requirements through December 2019. We believe that the Company will be able to raise additional capital to commence a Phase 1 clinical trial for KLS-13019 for patients with chemotherapy induced peripheral neuropathy. We anticipate, based on current estimates, that costs associated with a Phase 1 clinical trial for KLS-13019 will be approximately \$2.75 million.

Our investment in Medical Marijuana, Inc. ("MJNA") represents a sizable portion of the total assets of the Company. On June 1, 2018, the Company received 41,583,333 shares of MJNA common stock pursuant to a settlement agreement. In 2014, the Company entered into a revenue sharing agreement with Kannaway LLC, whereas, among the considerations and obligations, the parties agreed to a share exchange, whereby the Company issued 6,408,980 shares of its common stock in exchange of 4.99% ownership of Kannaway.

A significant shareholder of the Company owned the remaining ownership of Kannaway LLC. Subsequently, Kannaway was sold by its parent company to MJNA for 833,333,333 shares of MJNA common stock. The settlement agreement called for the release of all obligations in exchange for the issuance of 41,583,333 shares of common stock in MJNA to the Company. For the year ended December 31, 2018, the Company recorded a realized gain of \$3,901,974 upon the settlement and receipt of these shares and an unrealized loss of \$873,693 related to the investment in MJNA. The gain was netted against the Company's cost basis investment in Kannaway LLC.

The Company's shares in MJNA are eligible for re-sale under Rule 144 of the Securities Act, and the Company intends to liquidate its holdings in MJNA in its discretion to help fund its operations. There are no contractual, affiliate or other restrictions on the Company's ability to re-sell its shares in MJNA. In the event that we are unable to sell our shares in MJNA, management believes that it can locate additional sources of capital to facilitate and carry out its business plan and the Company's ability to conduct its business operations and clinical trials is not dependent on our ability to sell the Company's shares in MJNA.

Management of the Company believes that it will need to seek additional sources of capital to facilitate and carry out its business plan of proceeding forth with commencing a Phase 2 clinical trial for KLS-13019 for patients with chemotherapy induced peripheral neuropathy; commencing a Phase 1 clinical trial for KLS-13019 for patients suffering from the effects of mild traumatic brain injury; and commencing a Phase 1 clinical trial for KLS-13023 for patients suffering with overt hepatic encephalopathy. The cost of commencing and conducting these trials will likely be in the tens of millions of dollars.

Furthermore, it is difficult to predict our spending for our product candidates prior to obtaining FDA approval. Moreover, changing circumstances may cause us to expend cash significantly faster than we currently anticipate, and we may need to spend more cash than currently expected because of circumstances beyond our control.

Our expectations regarding future cash requirements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments that we make in the future. We have no current understandings, agreements or commitments for any material acquisitions or licenses of any products, businesses or technologies. We may need to raise substantial additional capital in order to engage in any of these types of transactions.

We expect to continue to incur substantial additional operating losses for at least the next several years as we continue to develop our product candidates and seek marketing approval and, subject to obtaining such approval, the eventual commercialization of our product candidates. If we obtain marketing approval for either of our product candidates, we will incur significant sales, marketing and outsourced manufacturing expenses. In addition, we expect to incur additional expenses to add operational, financial and information systems and personnel, including personnel to support our planned product commercialization efforts. We also expect to incur significant costs to comply with corporate governance, internal controls and similar requirements applicable to us as a public company.

Our future use of operating cash and capital requirements will depend on many forward-looking factors, including the following:

- the initiation, progress, timing, costs and results of preclinical studies and clinical trials for our product candidates;
- the clinical development plans we establish for these product candidates;
- the number and characteristics of product candidates that we develop or may in-license;
- the terms of any collaboration agreements we may choose to execute;
- the outcome, timing and cost of meeting regulatory requirements established by the DEA, the FDA, the EMA or other comparable foreign regulatory authorities;
- the cost of filing, prosecuting, defending and enforcing our patent claims and other intellectual property rights;
- the cost of defending intellectual property disputes, including patent infringement actions brought by third parties against us;
- costs and timing of the implementation of commercial scale manufacturing activities; and
- the cost of establishing, or outsourcing, sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval in regions where we choose to commercialize our products on our own.

To the extent that our capital resources are insufficient to meet our future operating and capital requirements, we will need to finance our cash needs through public or private equity offerings, debt financings, collaboration and licensing arrangements or other financing alternatives. We have no committed external sources of funds. Additional equity or debt financing or collaboration and licensing arrangements may not be available on acceptable terms, if at all.

If we raise additional funds by issuing equity securities, our stockholders will experience dilution. Debt financing, if available, would result in increased fixed payment obligations and may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. Any debt financing or additional equity that we raise may contain terms, such as liquidation and other preferences that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish valuable rights to our technologies, future revenue streams or product candidates or to grant licenses on terms that may not be favorable to us.

## Cash Flows

The following table summarizes our cash flows from operating, investing and financing activities for the nine months ended September 30, 2019, and 2018.

	Nine Months Ended September 30,	
	2019	2018
<b>Statement of Cash Flows Data:</b>		
Total net cash provided by (used in):		
Operating activities	\$ (2,000,012)	(762,947)
Investing activities	1,813,334	289,654
Financing activities	97	698,000
(Decrease) increase in cash	\$ (186,581)	224,707

### Operating Activities

For the nine months ended September 30, 2019, cash used in operations was \$2,000,012 compared to \$762,947 for the nine months ended September 30, 2018. This was primarily due to a net loss in 2019 vs net income in 2018.

### Investing Activities

For the nine months ended September 30, 2019, cash provided by investing activities was \$1,813,334 compared to \$289,654 for the nine months ended September 30, 2018. This was due to cash received upon the sale of marketable securities in 2019 vs \$0 in 2018.

### Financing Activities

For the nine months ended September 30, 2019, cash provided by financing activities was \$97 compared to \$698,000 for the nine months ended September 30, 2018. This was due to a significant increase of proceeds from issuance of stock and notes payable in 2018 vs 2019.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, except for operating leases, or relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.

### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU, Leases, which requires lessees to recognize most leases on their balance sheets as a right-of-use asset with a corresponding lease liability. Lessor accounting under the standard is substantially unchanged. Additional qualitative and quantitative disclosures are also required. The Company adopted the standard effective January 1, 2019, using the cumulative-effect adjustment transition method, which applies the provisions of the standard at the effective date without adjusting the comparative periods presented. The Company adopted the following practical expedients, and elected the following accounting policies related to this standard update:

- The option to not reassess prior conclusions related to the identification, classification and accounting for initial direct costs for leases that commenced prior to January 1, 2019.
- Short-term lease accounting policy election allowing lessees to not recognize right-of-use assets and liabilities for leases with a term of 12 months or less; and
- The option to not separate lease and non-lease components for certain equipment lease asset categories such as freight car, vehicles and work equipment.
- The package of practical expedients applied to all of its leases, including (i) not reassessing whether any expired or existing contracts are or contain leases, (ii) not reassessing the lease classification for any expired or existing leases, and (iii) not reassessing initial direct costs for any existing leases.

The Company has inventoried all leases where the Company is a lessee as of the initial date of application and has examined other contracts with suppliers, vendors, customers and other outside parties to identify whether such contracts contain an embedded lease as defined under the new guidance. The Company's lease population comprises of an office and lab, which is immaterial to the financial statements.

As a result of the above, the adoption of ASC 842 did not have a material effect on the consolidated financial statements. The Company will review for the existence of embedded leases in future agreements.

In June 2018, the FASB issued ASU No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." These amendments expand the scope of Topic 718, Compensation - Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity - Equity-Based Payments to Non-Employees. This standard is effective for public companies for annual periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted as long as ASU 2014-09 has been adopted. The Company adopted the guidance on January 1, 2019. The adoption did not have a material impact on our consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures.**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

## Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal controls over financial reporting based on the framework in "Internal Control Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, management has concluded that our internal control over financial reporting was ineffective as of September 30, 2019, to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our reporting was ineffective due to a lack of sufficient resources to hire a support staff in order to separate duties between different individuals. The Company lacks the appropriate personnel to handle all the varying recording and reporting tasks on a timely basis. Steps that the Company believes it must undertake is to retain a consulting firm to, among other things, design and implement adequate systems of accounting and financial statement disclosure controls during the current fiscal year to comply with the requirements of the SEC. We believe that the ultimate success of our plan to improve our disclosure controls and procedures will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of those of our officers, personnel and others, including certain of our directors such as our committee chairs, who are charged with implementing and/or carrying out our plan.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as required in Rule 13a-15(b). We are conducting an evaluation to design and implement adequate systems of accounting and financial statement disclosure controls. We expect to complete this review during 2019 to comply with the requirement of the SEC. We believe that the ultimate success of our plan to improve our internal control over financial reporting will require a combination of additional financial resources, outside consulting services, legal advice, additional personnel, further reallocation of responsibility among various persons, and substantial additional training of our officers, personnel and others, including certain of our directors such as our Chairman of the Board and Chief Financial Officer, who are charged with implementing and/or carrying out our plan. It should also be noted that the design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls or our internal control over financial reporting, or any system we design or implement in the future, will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### Changes in Internal Control

There have not been any changes in our internal control over financial reporting during the nine month period ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

On or about September 18, 2013, a lawsuit was filed by two individuals against the Company and the Company's CEO. The plaintiffs allege that they provided business services to Kannalife Sciences, Inc. ("Kannalife") in the amount of \$150,000, including but not limited to providing strategic introductions to Kannalife and Mr. Petkanas and were seeking 17% of the issued and outstanding stock of Kannalife. The Company believed, at all times, that the allegations to be without merit and vigorously defended itself.

On or about September 30, 2013, Kannalife and Mr. Petkanas filed a motion to dismiss all five causes of action alleged against Kannalife and Mr. Petkanas.

On May 12, 2014, the court dismissed all five causes of action alleged by one plaintiff against Kannalife and Mr. Petkanas.

On March 27, 2015, the court granted permission to this plaintiff to replead his complaint (the "Repleading Plaintiff").

On July 14, 2015, the court denied the Repleading Plaintiff's motion to reargue, affirming the dismissal of all of the Repleading Plaintiff's causes of action, which left three causes of action that remain open relating to the remaining plaintiff (the "Remaining Plaintiff").

In December 2016, Kannalife and Mr. Petkanas filed a motion for summary judgment to seek the court's decision in dismissing the remainder of the claims alleged by the Remaining Plaintiff.

On June 30, 2017, the motion for summary judgment made by Kannalife and Mr. Petkanas was granted. All remaining causes of action by the Remaining Plaintiff were dismissed.

On February 7, 2018, the Remaining Plaintiff, (the "Plaintiff-Appellant") appealed from the June 30, 2017 decision and order of the lower court, which granted the Kannalife's and Mr. Petkanas' (Defendants-Respondents) motion for summary judgment dismissing all of Plaintiff-Appellant's claims. In his amended complaint, Plaintiff-Appellant alleged the existence of an oral agreement between himself and Kannalife and Mr. Petkanas for the exchange of investments (including both money and services) from Plaintiff-Appellant in return for the transfer of 17% of Kannalife's shares. However, Plaintiff-Appellant's allegations consisted of nothing more than vague statements regarding what he promised to provide to Kannalife and to Mr. Petkanas in exchange for nearly one-fifth of Kannalife's shares. And after years of litigation, including extensive depositions and document exchanges, the evidence elicited by both parties failed to clarify either the precise terms of the alleged oral agreement or that Plaintiff-Appellant actually made any investments as he allegedly promised to do. In the lower court, Kannalife and Mr. Petkanas moved for summary judgment dismissing Plaintiff-Appellant's claims based on certain undisputed facts: that no evidence existed to show that Plaintiff-Appellant—or Stone Engineering, P.C., which is Plaintiff-Appellant's S Corporation—made any investment at all in Kannalife; that even if Plaintiff-Appellant did make any investments, the alleged agreement is unenforceable pursuant to General Obligations Law § 5-701(a)(1) (the Statute of Frauds) because the terms cannot be completed within one year; and the contract is unenforceable as a matter of hornbook law because Plaintiff-Appellant's own testimony establishes that he and Kannalife and Mr. Petkanas never reached a "meeting of the minds" with respect to the contours of Plaintiff-Appellant's supposed offer of investments or the time period for transferring the shares to Plaintiff-Appellant.

On appeal, Plaintiff-Appellant argues the lower court's decision was wrong because: (1) it was based upon an erroneous finding that Plaintiff-Appellant lacks standing to recover his shares in Kannalife; and (2) enforcement of the alleged contract is not barred by the Statute of Frauds because (a) its terms were capable of being performed within one year and (b) the alleged agreement constitutes a securities contract under UCC § 8-113 that does not require a writing to be enforceable. However, in Opposition Kannalife and Mr. Petkanas argued that the lower court's decision should primarily be affirmed based upon an argument raised by Kannalife and Mr. Petkanas in their motion: the undisputed evidence shows that there was no meeting of the minds between Plaintiff-Appellant, and Kannalife and Mr. Petkanas regarding the terms of the alleged oral agreement. Moreover, the terms of the alleged agreement that Plaintiff-Appellant himself asserted—if they are assumed to be true for purposes of the motion and appeal—indicate that it was impossible for him to perform his obligations within one year; and a review of UCC § 8-113 along with interpretive case law requires a conclusion that the alleged agreement in this case does not constitute the type of securities contract that does not require a writing to be enforceable. Thus, to the extent an oral agreement between Plaintiff-Appellant, and Kannalife and Mr. Petkanas was ever actually created, then its enforcement is barred by the Statute of Frauds—and the lower court's decision to dismiss Plaintiff-Appellant's claim seeking enforcement of the alleged oral agreement was properly reached for these reasons. Accordingly, Kannalife and Mr. Petkanas believe that the 2nd Department will affirm the lower court's decision and order entirely.

On September 28, 2018, in an attempt to correct fatal flaws in the Plaintiff-Appellant's original case dismissed on June 30, 2017, the Plaintiff-Appellant filed a new lawsuit against Kannalife and Mr. Petkanas, alleging much, if not all of the same claims as in the original case filed by the Plaintiff-Appellant, a case which was dismissed on June 30, 2017. This new lawsuit now seeks, instead of the relief sought in the case previously dismissed, a sum of no less than \$21,250,000.

Kannalife and Mr. Petkanas believe that this new case is without merit and will be ultimately dismissed in the fullness of time.

Other than aforementioned, there are no pending legal proceeding relating to the Company and its CEO to which we are a party, and to our knowledge, there are no material proceedings to which any of our directors, executive officers or affiliates is a party adverse to us or which have a material interest adverse to us.

#### **Item 1A. Risk Factors.**

You should carefully review and consider the information regarding certain factors that could materially affect our business, financial condition or future results set forth under the heading "Risk Factors" in our Registration Statement on Form S-1, as amended, and Annual Report on Form 10-K filed with the Securities and Exchange Commission on August 8, 2019, and April 9, 2019, respectively. There have been no material changes from the factors disclosed in our Registration Statement on Form S-1, as amended, or Annual Report on Form 10-K, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the Securities and Exchange Commission.

#### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

In August 2019, the Company issued 950,000 shares of common stock at the price of \$0.10 per share to board members for general compensation for services rendered.

In August 2019, the Company issued 500,000 shares of common stock at the price of \$0.10 per share to an investor relations consultant for services rendered.

In August 2019, the Company issued 150,000 shares of common stock at the price of \$0.10 per share to a product development consultant for services rendered.

In August 2019, the Company issued 400,000 shares of common stock at the price of \$0.10 per share to a marketing consultant for services rendered.

In August 2019, the Company issued 700,000 shares of common stock at the price of \$0.10 per share to consultants for general compensation for services rendered. This compensation is included in research and development on the statement of operations.

On August 30, 2019, the Company issued 171,000 shares of common stock at a price of \$0.07 per share to acquire the remaining non-controlling interest in Kannalife Sciences, Inc., bringing our ownership interest from 99.7% to 100%.

On September 26, 2019, the Company issued 1,500,000 shares of common stock at a price of \$0.10 per share for the conversion of \$123,627 convertible notes payable and \$26,373 of related accrued interest

The shares described above were issued in private transactions pursuant to Section 4(2) of the Securities Act of 1933, as amended.

#### **Item 3. Defaults Upon Senior Securities.**

None.

#### **Item 4. Mine Safety Disclosures.**

Not Applicable.

#### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
31.1*	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2*	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1*	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**</a>
32.2*	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**</a>
101. INS	XBRL Instance Document
101. SCH	XBRL Taxonomy Extension Schema Document
101. CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101. DEF	XBRL Taxonomy Extension Definition Linkbase Document
101. LAB	XBRL Taxonomy Extension Label Linkbase Document
101. PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**SIGNATURES**

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

Company Name

Date: November 13, 2019

By: */s/ Dean Petkanas*

\_\_\_\_\_  
Dean Petkanas  
Chief Executive Officer and Chairman  
(Principal Executive Officer)

Date: November 13, 2019

By: */s/ Mark Corrao*

\_\_\_\_\_  
Mark Corrao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)



**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dean Petkanas, certify that:

1. I have reviewed this Report on Form 10-Q for Kannalife, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Dean Petkanas  
Dean Petkanas  
Chief Executive Officer and Chairman  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO  
SECURITIES EXCHANGE ACT RULES 13a-14(a) AND 15(d)-14(a), AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mark Corrao, certify that:

1. I have reviewed this Report on Form 10-Q for Kannalife, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2019

/s/ Mark Corrao  
Mark Corrao  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Kannalife, Inc., a Delaware Corporation, (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify the following pursuant to Section 18, U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

Date: November 13, 2019

/s/ Dean Petkanas  
Dean Petkanas  
Chief Executive Officer and Chairman  
(Principal Executive Officer)

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

In connection with the Quarterly Report of Kannalife, Inc., a Delaware Corporation, (the "Company") on Form 10-Q for the quarter ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned certify the following pursuant to Section 18, U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002:

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

Date: November 13, 2019

/s/ Mark Corrao

Mark Corrao

Chief Financial Officer

(Principal Financial and Accounting Officer)