SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Kannalife Inc

Form: 10-Q

Date Filed: 2020-08-12

Corporate Issuer CIK: 1615999

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2020

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	**46-2645343**
(State or other jurisdiction of incorporation or organization)	(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**
None		

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 August 12, 2020, the issuer had 74,250,141 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

	June 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 148,397	$ 121,455
Prepaid expenses	3,000	9,000
Other receivables	400	400
Total Current Assets	151,797	130,855
NON-CURRENT ASSETS:		
Property and equipment, net	67,332	75,401
Security deposits	17,121	17,121
Total Non-Current Assets	84,453	92,522
TOTAL ASSETS	$ 236,250	$ 223,377
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 450,671	$ 389,195
Payroll and related liabilities	304,626	243,208
Loan payable	657,422	620,000
Loan payable - related party	42,092	42,092
Convertible notes payable, net of $336,507 debt discount	78,493	—
Capital lease obligations	7,757	7,533
Due to related party, net	39,904	25,349
Derivative liabilities	604,065	—
Total Current Liabilities	2,185,030	1,327,377
LONG TERM LIABILITIES:		
Loan payable - long term	46,778	—
Convertible notes payable - long term, net of $72,877 debt discount	403,496	378,839
Convertible notes payable - long term, net of $116,986 debt discount - related party	33,014	—
Capital lease obligation - long term	23,884	27,764
Derivative liabilities - long term	409,617	183,451
Total Long Term Liabilities	916,789	590,054
TOTAL LIABILITIES	3,101,819	1,917,431
Commitments and contingencies (Note 13)	—	—
STOCKHOLDERS' DEFICIT:		
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, 74,250,141 and 74,225,141 issued and outstanding, respectively	7,447	7,422
Additional paid-in capital	7,989,856	6,794,612
Accumulated deficit	(10,862,872)	(8,496,088)
TOTAL STOCKHOLDERS' DEFICIT	(2,865,569)	(1,694,054)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 236,250	$ 223,377

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

KANNALIFE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
NET REVENUES:				
Grant revenue	$ —	$ 52,768	$ —	$ 102,059
TOTAL NET REVENUES	—	52,768	—	102,059
OPERATING EXPENSES:				
Research and development	287,665	148,959	307,392	250,237
General and administrative	1,202,307	458,581	1,566,414	909,767
TOTAL OPERATING EXPENSES	1,489,972	607,540	1,873,806	1,160,004
LOSS FROM OPERATIONS	(1,489,972)	(554,772)	(1,873,806)	(1,057,945)
OTHER INCOME (EXPENSE):				
Interest expense, net	(399,204)	(15,980)	(614,367)	(31,960)
Net gains and losses recognized on marketable security	—	(213,664)	—	(543,010)
Change in fair value of derivative liabilities	(169,776)	—	121,389	—
TOTAL OTHER INCOME (EXPENSE)	(568,980)	(229,644)	(492,978)	(574,970)
NET LOSS BEFORE INCOME TAX	$ (2,058,952)	$ (784,416)	$ (2,366,784)	$ (1,632,915)
Income tax expense	—	—	—	—
NET LOSS	**$ (2,058,952)**	**$ (784,416)**	**$ (2,366,784)**	**$ (1,632,915)**
Net loss attributable to noncontrolling interests	—	(2,341)	—	(4,875)
Net loss attributable to Kannalife, Inc.	**$ (2,058,952)**	**$ (782,075)**	**$ (2,366,784)**	**$ (1,628,040)**
Loss attributable to Kannalife, Inc. per common share - basic	$ (0.03)	$ (0.01)	$ (0.03)	$ (0.02)
Loss attributable to Kannalife, Inc. per common share - diluted	$ (0.03)	$ (0.01)	$ (0.03)	$ (0.02)
Weighted average common shares outstanding - basic	74,240,141	69,854,141	74,232,600	69,854,141
Weighted average common shares outstanding - diluted	74,240,141	69,854,141	74,232,600	69,854,141

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					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Non-controlling interest	Total Stockholders' Equity (Deficit)
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	—	—	—	—	—	—	2,519	—	—	2,519
Net income	—	—	—	—	—	—	—	(845,965)	(2,534)	(848,499)
Balance at March 31, 2019	75	—	75	—	69,854,141	6,985	6,384,274	(5,898,016)	(8,290)	484,953
Issuance of stock options for services	—	—	—	—	—	—	2,519	—	—	2,519
Net income	—	—	—	—	—	—	—	(782,075)	(2,341)	(784,416)
Balance at June 30, 2019	75	$ —	75	$ —	69,854,141	$ 6,985	$6,386,793	$ (6,680,091)	$ (10,631)	$ (296,944)
Balance at December 31, 2019	75	—	75	—	74,225,141	7,422	6,794,612	(8,496,088)	—	(1,694,054)
Net loss	—	—	—	—	—	—	—	(307,832)	—	(307,832)
Balance at March 31, 2020	75	$ —	75	$ —	74,225,141	$ 7,422	$6,794,612	$ (8,803,920)	—	$ (2,001,886)
Issuance of common stock for acquisition of intellectual property	—	—	—	—	25,000	25	13,225	—	—	13,250
Stock based compensation	—	—	—	—	—	—	1,182,019	—	—	1,182,019
Net loss	—	—	—	—	—	—	—	(2,058,952)	—	(2,058,952)
Balance at June 30, 2020	75	$ —	75	$ —	$74,250,141	$ 7,447	$7,989,856	$ (10,862,872)	$ —	$ (2,865,569)

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

KANNALIFE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited

	Six Months Ended June 30,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,366,784)	$ (1,632,915)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net gains and losses recognized on marketable security	—	213,664
Depreciation	8,069	305
Amortization of debt discount	136,164	5,038
Stock based compensation	1,182,019	—
Issuance of common stock for acquisition of intellectual property	13,250	—
Non-cash interest expense	429,470	—
Change in fair value of derivative liabilities	(121,389)	—
Changes in operating assets and liabilities:		
Prepaid expenses	6,000	—
Other receivables	—	49,480
Accounts payable and accrued expenses	61,476	43,953
Payroll and related liabilities	61,418	3,470
Due to related party, net	14,555	13,878
NET CASH USED IN OPERATING ACTIVITIES	(575,752)	(1,303,127)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of marketable securities	—	1,560,476
Purchase of other asset	—	(27,490)
NET CASH PROVIDED BY INVESTING ACTIVITIES	—	1,532,986
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments toward capital lease obligations	(3,656)	—
Proceeds from loan payable	84,200	—
Proceeds from convertible notes payable, net of OID	372,150	—
Proceeds from convertible notes payable - related party	150,000	97
NET CASH PROVIDED BY FINANCING ACTIVITIES	602,694	97
Net increase in cash	26,942	229,956
Cash and cash equivalents, beginning of period	121,455	307,131
Cash and cash equivalents, end of period	$ 148,397	$ 537,087
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ —	$ —
Cash paid for taxes	$ —	$ —
NON-CASH ACTIVITIES:		
Debt discount upon the issuance of convertible note payable	$ 372,150	$ —
Debt discount upon the issuance of convertible note payable - related party	$ 150,000	$ —

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

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.

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 condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These condensed 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 2020. 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 condensed consolidated financial statements should be read in conjunction with our audited financial statements and accompanying notes for the year ended December 31, 2019, included in the Company's Annual Report on Form 10-K filed with the SEC on March 30, 2020.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

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.

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.

In December 2019, a novel strain of coronavirus, commonly known as COVID-19, surfaced. The spread of COVID-19 around the world in the first two quarters of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the Company is unable to determine if it will have a material impact to its operations. The Company's operations as of June 30, 2020 have not been significantly affected, but may be affected in the future, by the ongoing outbreak of COVID-19 which was declared a pandemic by the World Health Organization. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may result in a material adverse impact on the Company's financial position, operations and cash flows. Possible areas that may be affected include, but are not limited to, disruption to the Company's labor workforce, unavailability of products and supplies used in operations, and the decline in value of assets held by the Company.

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, valuation of derivative liabilities 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.

Net 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 5,969,630 for the three and six months ended June 30, 2020. The weighted average number of common stock equivalents not included in diluted income per share, because the effects are anti-dilutive, was 5,150,000 for the three and six months ended June 30, 2019.

Common stock equivalents are included in the diluted income per share calculation only when option or warrant exercise prices are lower than the average market price of the common shares for the period presented. One hundred thousand (100,000) options and one hundred fifteen thousand three hundred and eighty five (115,385) warrants were not included in the calculation of net loss per common share for the six months ended June 30, 2020 and One hundred thousand (100,000) options were not included in the calculation of net loss per common share for the six months ended June 30, 2019 because their effect would be anti-dilutive.

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 June 30, 2020 and 2019, were $287,665 and $148,959, respectively. Total R&D costs for the six months ended June 30, 2020 and 2019, were $307,392 and $250,237, respectively.

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, which is included in the general and administrative 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).

Recently Issued Authoritative Guidance

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses" to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. In April 2019 and May 2019, the FASB issued ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" and ASU No. 2019-05, "Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief" which provided additional implementation guidance on the previously issued ASU. In November 2019, the FASB issued ASU 2019-10, "Financial Instruments - Credit Loss (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)," which defers the effective date for public filers that are considered small reporting companies ("SRC") as defined by the Securities and Exchange Commission to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Since the Company is an SRC, implementation is not needed until January 1, 2023. The Company will continue to evaluate the effect of adopting ASU 2016-13 will have on the Company's consolidated financial statements.

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 $1,873,806 and $1,057,945 for the six months ended June 30, 2020 and 2019, respectively. The net cash used in operations were $575,752 and $1,303,127 for the six months ended June 30, 2020 and 2019, respectively. Additionally, the Company had an accumulated deficit of $10,862,872 at June 30, 2020 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. These factors raise substantial doubt about its ability to continue as a going concern.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management plans to raise additional capital through the sale of convertible debt securities offering. However, there are no assurances that such additional funding will be achieved or that management's plans will be successful. 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 disclosure 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 condensed 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.

The following table presents liabilities that are measured and recognized at fair value as of June 30, 2020 and December 31, 2019, on a recurring basis:

	June 30, 2020			
	Level 1	Level 2	Level 3	Total Carrying Value
Derivative liabilities	$ —	—	1,013,682	$ 1,013,682

	December 31, 2019			
	Level 1	Level 2	Level 3	Total Carrying Value
Derivative liabilities	$ —	—	183,451	$ 183,451

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2020 and December 31, 2019 consisted of the following:

	June 30, 2020	December 31, 2019
Accounts payable and accrued expenses	$ 333,470	$ 309,231
Accrued interest	117,201	79,964
Totals	$ 450,671	$ 389,195

NOTE 6 – PAYROLL AND RELATED LIABILITIES

Payroll and related liabilities at June 30, 2020 and December 31, 2019 consisted of the following:

	June 30, 2020	December 31, 2019
Payroll	$ 66,165	$ —
Payroll taxes	238,461	243,208
Totals	$ 304,626	$ 243,208

As of the six months period ended June 30, 2020 and the year ended December 31, 2019, the Company has accrued payroll and payroll taxes in connection with salaries paid and accrued to four officers of the Company.

NOTE 7 – LOAN PAYABLE

		June 30, 2020	December 31, 2019
Loan payable at 8%, matures 7/1/2020	* {a}	$ 620,000	$ 620,000
Loan payable at 1%, matures 4/23/2022	*	84,200	—
Total		704,200	620,000
Less: short term loans		657,422	620,000
Total long-term loans		$ 46,778	$ —

{a} - On July 1, 2020 the Company extended the note to December 31, 2020 based on the same terms and conditions.
* - unsecured note

Total interest expense on notes payable, amounted to $12,369 and $12,230 for the three months ended June 30, 2020 and 2019, respectively. Total interest expense on notes payable, amounted to $24,599 and $24,460 for the six months ended June 30, 2020 and 2019, respectively Accrued interest related to these notes was $97,979 and $73,381 as of June 30, 2020 and December 31, 2019, respectively.

NOTE 8 – LOAN 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 which was later extended to March 31, 2021. Additionally, the note holder advanced the Company $16,270 for working capital, for a total of $42,092 – also see Note 16.

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 2018, this note was amended, and the original note holder assigned the note to Kettner Investments, LLC, a significant shareholder. The note is now non-interest bearing. Accrued interest related to this note is $226 as of June 30, 2020 and December 31, 2019, respectively.

NOTE 9 – 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 $31,641, secured by equipment with carrying value of $53,600, as of June 30, 2020.

NOTE 10 – CONVERTIBLE NOTES PAYABLE

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 such 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 was $376,373.

In December 2019, the Company entered into a Securities Purchase Agreement with an investor pursuant to which the Company agreed to sell to the investor a $100,000 convertible note bearing interest at 8% per annum (the "Note"). The Note matures two years from the date of issuance. The Note is convertible at the option of the holder at any time into shares of the Company's common stock at an effective conversion price of 75% of the average closing price of the Company's common stock on the fifteen days prior to conversion. The Company may not prepay this Note within the first six months. If, after the first six months until the maturity of the Note the Company:

(a) elects to repay the Note, it must do so at a premium of one hundred and twenty five percent (125%) of the face amount of the Note, together with all unpaid and accrued interest to the date of repayment.

(b) elects to involuntarily exercise conversion of this Note to the Holder, the Company must provide written notice to the Holder along with an executed copy of the Company's Notice of Conversion, specifying that the Note shall be converted into shares of the Company's Common Stock based upon at an effective conversion price of 75% of the average closing price of the Company's common stock on the fifteen days prior to conversion.

The embedded conversion feature of this Note was deemed to require bifurcation and liability classification, at fair value. Pursuant to the Securities Purchase Agreement, the Company also sold warrants to the investors to purchase up to an aggregate of 100,000 shares of common stock. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the Note (see Note 12) resulting in full discount of the Note.

On March 12, 2020, the Company entered into securities purchase agreements with two different accredited investors (each an "Investor", and together the "Investors") pursuant to which each Investor purchased an 8% unsecured convertible promissory note (each a "8% Note", and together the "8% Notes") from the Company. The terms and conditions of each of the 8% Notes are substantially the same. Each 8% Note has a principal amount of $105,000 less a $5,000 original issue discount for a purchase price of $100,000, with a maturity date of March 12, 2021. All principal amounts and the interest thereon are convertible into shares of the Company's common stock at the option of each Investor, after six (6) months from the date of the 8% Notes. These 8% Notes have a variable conversion price and the Company recorded embedded derivative liabilities. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the 8% Note (see Note 12) resulting in full discount of the 8% Note.

On June 8, 2020, the Company entered into a securities purchase agreement, dated as of June 2, 2020 (the "Purchase Agreement"), with an accredited investor pursuant to which the investor purchased a 12% unsecured convertible promissory note (the "12% Note") from the Company. The 12% Note has a principal amount of $165,000 less a $9,000 original issue discount ("OID") for a purchase price of $156,000, of which $52,000 was paid on June 8, 2020 less $3,100 in transaction fees (the "First Tranche"). The 12% Note matures 12 months from the effective date of each tranche. All principal amounts and the interest thereon are convertible into shares of the Company's common stock at the option of the Investor, after six (6) months from the date of the 12% Note. All closings occurred following the satisfaction of customary closing conditions. The 12% Note is convertible at the option of the holder at any time into shares of the Company's common stock at an effective conversion price of the lesser of (i) 68% multiplied by the lowest Trading Price (representing a discount rate of 32%) during the previous fifteen (15) trading day period ending on the latest complete trading day prior to the date of the 12% Note or (ii) the Variable Conversion Price. In connection with the Purchase Agreement and the 12% Note, the Company issued a common stock purchase warrant to purchase 36,666 shares of the Company's common stock at $0.75 per share (the "Warrant") which may be exercised by cashless exercise, exercisable for a period of three years. The 12% Note has a variable conversion price and the Company recorded embedded derivative liabilities. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the 12% Note (see Note 12) resulting in full discount of the 12% Note.

On June 23, 2020, the Company entered into a securities purchase agreement, dated as of June 19, 2020, with an accredited investor pursuant to which the investor purchased a 12% convertible promissory note in the principal amount of $150,000, less $20,750 in transaction-related, broker, legal and due diligence expenses. The note matures on June 19, 2021. Principal payments on the note shall be made in six (6) installments, each in the amount of $25,000, starting on December 19, 2020, and continuing thereafter each thirty (30) days for five (5) months. Notwithstanding the foregoing, the final payment of principal and accrued and unpaid interest shall be due on the June 19, 2021. The investor is entitled to, at its option, convert all or any amount of the principal amount and any accrued but unpaid interest of the note into shares of the Company's common stock, at any time upon an event of default, at a conversion price for each share of common stock equal to the lesser of (i) the lowest trading price during the previous five (5) trading day period ending on the latest complete trading day prior to the date of the note, or (ii) the Variable Conversion Price, subject to certain equitable adjustments. Furthermore, in connection with the securities purchase agreement and the note, the Company issued two common stock purchase warrants each to purchase 115,385 shares of the Company's common stock at $1.30 per share which may be exercised by cashless exercise, exercisable for a period of five years. One of the warrants only becomes exercisable upon default of the note. The note has a variable conversion price and the Company recorded embedded derivative liabilities. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the note (see Note 12) resulting in full discount of the note.

Total interest expense on convertible notes payable, inclusive of amortization of debt discount of $73,562 and $0, amounted to $80,912 and $3,750 for the three months ended June 30, 2020 and 2019, respectively. Total interest expense on convertible notes payable, inclusive of amortization of debt discount of $103,151 and $0, amounted to $113,434 and $7,500 for the six months ended June 30, 2020 and 2019, respectively.

Total accrued interest on convertible notes payable, as of June 30, 2020 and December 31, 2019, was $10,483 and $200, respectively.

NOTE 11 – CONVERTIBLE NOTES PAYABLE – RELATED PARTY

In January 2020, the Company sold an additional $100,000, to Kettner Investments, LLC, a significant shareholder, under the Note and sold warrants to purchase up to an aggregate of 100,000 shares of common stock under the Securities Purchase Agreement. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the Note (see Note 12) resulting in full discount of the Note.

In February 2020, the Company sold an additional $50,000, to the CEO of MJNA, a significant shareholder, under the Note and sold warrants to purchase up to an aggregate of 50,000 shares of common stock under the Securities Purchase Agreement. The fair value of the derivative liability and warrants as of the date of issuance was in excess of the Note (see Note 12) resulting in full discount of the Note.

Total interest expense on convertible notes payable – related party, inclusive of amortization of debt discount of $73,562 and $0, amounted to $80,912 and $3,750 for the three months ended June 30, 2020 and 2019, respectively. Total interest expense on convertible notes payable – related party, inclusive of amortization of debt discount of $103,151 and $0, amounted to $113,434 and $7,500 for the six months ended June 30, 2020 and 2019, respectively.

Total accrued interest on convertible notes payable – related party, as of June 30, 2020 and December 31, 2019, was $10,483 and $200, respectively.

NOTE 12 – DERIVATIVE LIABILITIES

The Company issued debts that consist of the issuance of convertible notes with variable conversion provisions. In addition, the Company issued warrants with variable conversion provisions. The conversion terms of the convertible notes and warrants are variable based on certain factors, such as the future price of the Company's common stock. The number of shares of common stock to be issued is based on the future price of the Company's common stock. The number of shares of common stock issuable upon conversion of the promissory note is indeterminate. Pursuant to ASC 815-15 Embedded Derivatives, the fair values of the variable conversion option and warrants and shares to be issued were recorded as derivative liabilities on the issuance date.

Based on the various convertible notes described in Note 10 and 11, the fair value of applicable derivative liabilities on notes, warrants and change in fair value of derivative liability are as follows for the six months ended June 30, 2020:

	Derivative Liability - Convertible Notes	Derivative Liability - Warrants	Total
Balance as of December 31, 2019	$ 61,430	$ 122,021	$ 183,451
Additions during the period	597,841	353,779	951,620
Change in fair value	16,705	(138,094)	(121,389)
Change due to exercise / redemptions	—	—	—
Balance as of June 30, 2020	$ 675,976	$ 337,706	$ 1,013,682

The fair value of the derivative liability – convertible notes is estimated using a Monte Carlo pricing model with the following assumptions:

Market value of common stock	$0.58 - 1.80
Expected volatility	93.4% - 107.3%
Expected term (in years)	0.48 – 1.59
Risk-free interest rate	0.12% - 0.18%

The fair value of the derivative liability – warrants is estimated using a Monte Carlo pricing model with the following assumptions:

Market value of common stock	$0.58 - 1.10
Expected volatility	108.8% - 143.6%
Expected term (in years)	2.48 - 4.97
Risk-free interest rate	0.23% - 0.36%

NOTE 13 – 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 one year lease arrangement for office space, with the option to renew the lease annually. The lease has been renewed through April 2021. The monthly rent payment is $5,600 and the security deposit is $15,000.

NOTE 14 – STOCKHOLDERS' DEFICIT

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.

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.

Common Stock

The Company is authorized to issue 200,000,000 shares of common stock, par value of $0.0001 per share. 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 April 28, 2020, the Company executed an intellectual property rights purchase and transfer agreement whereby this agreement grants certain IP to the Company. In connection with the execution of this agreement, the Company issued 25,000 shares of the Company's common stock at $0.53 a share to the research organization.

As of June 30, 2020 and December 31, 2019, there were 74,250,151 and 74,225,141 shares of common stock issued and outstanding, respectively.

Stock Options

On September 1, 2017, the Company entered into an agreement for consulting services. As compensation the Company granted options to purchase 100,000 shares of common stock at a price of $2.00 per share and are exercisable for five years. The stock option vests in equal monthly installments of 24 months. These options were valued at $20,154 using a Black-Scholes options pricing model. For the three months ended June 30, 2020 and 2019, the Company recorded $0 and $2,519, respectively. For the six months ended June 30, 2020 and 2019, the Company recorded $0 and $5,038, respectively, as stock based compensation which is included in the general and administrative expenses in the condensed consolidated statement of operations. The remaining expense outstanding for future periods is $0.

On May 4, 2020, the Company granted options to purchase 6,050,000 shares of common stock at a price of $0.57 per share to certain directors and employees of the Company (including our named executive officers) and are exercisable for ten years. One quarter of these options vest on the grant day, and the remainder of the options vest equally over thirty six (36) months starting January 1, 2020. These options were valued at $3,152,050 using a Black-Scholes Options Pricing Model. For the three and six months ended June 30, 2020, the Company recorded $947,569, respectively, as stock-based compensation and $234,450, respectively, as research and development expense, which are included in the general and administrative and research and development expenses in the condensed consolidated statement of operations. The remaining expense outstanding through December 31, 2022 is $1,970,031.

The fair value of the options is estimated using a Black-Scholes Options Pricing Model with the following assumptions:

Market value of common stock on issuance date	$0.40 - 0.57
Exercise price	$0.57 - 2.00
Expected volatility	100% - 138%
Expected term (in years)	5 - 10
Risk-free interest rate	0.64% – 1.73
Expected dividend yields	—

On August 12, 2019, the Board authorized the Kannalife, Inc. 2019 Equity Incentive Plan (the “2019 Plan”) in order to facilitate the grant of cash and equity incentives to directors, employees (including our named executive officers) and consultants of our company and certain of its affiliates and to enable our company and certain of its affiliates to obtain and retain services of these individuals, which is essential to our long-term success. Our 2019 Plan allows for the grant of a variety of equity vehicles to provide flexibility in implementing equity awards, including incentive stock options, non-qualified stock options, restricted stock grants, unrestricted stock grants and restricted stock units. A total of 7,500,000 shares of common stock were authorized under the 2019 Plan, which was amended to 11,500,000 shares of common stock, for which as of June 30, 2020 a total of 6,050,000 are outstanding.

The following is a summary of outstanding and exercisable options:

	Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2019	100,000	$ 2.00
Issued	6,050,000	0.57
Expired	—	—
Balance at June 30, 2020	6,150,000	$ 0.59

At June 30, 2020, 2,368,750 options for common stock were exercisable and the intrinsic value of these options was $1,202,438.

At June 30, 2020, the weighted average remaining contractual life was 9.52 years for options outstanding.

Warrants

In December 2019, the Company entered into a Securities Purchase Agreement with an investor pursuant to which the Company agreed to sell the investor a $100,000 convertible note bearing interest at 8% per annum. The Company also sold warrants to the investors to purchase up to an aggregate of 100,000 shares of common stock, with an exercise term of three (3) years, at a per share purchase price of one hundred twenty five percent (125%) of the voluntary or involuntary conversion price of the Company's 8% convertible note. The warrants were deemed as a derivative liability and was recorded as a debt discount at date of issuance. See Note 10.

In January and February 2020, the Company entered into a Securities Purchase Agreement with investors pursuant to which the Company agreed to sell the investors a $100,000 and $50,000 convertible note bearing interest at 8% per annum, respectively. The Company also sold warrants to the investors to purchase up to an aggregate of 100,000 and 50,000 shares of common stock, respectively, with an exercise term of three (3) years, at a per share purchase price of one hundred twenty five percent (125%) of the voluntary or involuntary conversion price of the Company's 8% convertible note. The warrants were deemed as a derivative liability and was recorded as a debt discount at date of issuance. See Note 10.

On June 8, 2020, the Company entered into a Securities Purchase Agreement, dated as of June 2, 2020 (the "Purchase Agreement") with an accredited investor pursuant to which the investor purchased a 12% unsecured convertible promissory note (the "12% Note") from the Company. In connection with the Purchase Agreement and the 12% Note, the Company issued a common stock purchase warrant to purchase 36,666 shares of the Company's common stock at $0.75 per share which may be exercised by cashless exercise, exercisable for a period of three years. The warrants were deemed as a derivative liability and was recorded as a debt discount at date of issuance. See Note 10.

On June 23, 2020, the Company entered into a Securities Purchase Agreement, dated as of June 19, 2020 with an accredited investor pursuant to which the Investor purchased a 12% convertible promissory note from the Company. In connection with the securities purchase agreement and the note, the Company issued two common stock purchase warrants each to purchase 115,385 shares of the Company's common stock at $1.30 per share which may be exercised by cashless exercise, exercisable for a period of five years. One of the warrants is to be issued only in the case of default on the note. The warrants were deemed as a derivative liability and was recorded as a debt discount at date of issuance. See Note 10.

The following is a summary of outstanding and exercisable warrants:

	Number of Shares		Weighted Average Exercise Price
Balance at December 31, 2019	100,000	$	3.26
Issued	302,051		1.71
Expired	—		—
Balance at June 30, 2020	402,051	$	1.11

At June 30, 2020, 402,051 warrants for common stock were exercisable and the intrinsic value of these warrants was $18,146.

At June 30, 2020, the weighted average remaining contractual life was 3.25 years for warrants outstanding.

NOTE 15 – RELATED PARTY TRANSACTIONS

The Company's Chief Executive Officer ("CEO") shares the use of the leased office space for personal living quarters. The CEO reimburses the Company for 50% of the monthly rent, or $2,800 per month.

As of June 30, 2020, the Company owes the CEO $39,904 for expenses the CEO incurred on behalf of the Company.

See Notes 8 and 11 for additional related party transactions.

NOTE 16 – SUBSEQUENT EVENTS

On July 1, 2020, the promissory note for $620,000, as discussed in Note 7, was extended to December 31, 2020 with the same terms and conditions.

On July 22, 2020, the related party promissory note for $42,092, as discussed in Note 8, was extended to March 31, 2021 with the same terms and conditions.

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 Form 10-K filed with the Securities and Exchange Commission on March 30, 2020.

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 acquired 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:
    - naturally recurring sources, including but not limited to cannabis, hemp, and other similar species of plantae;
    - semi-synthetic sources; and
    - 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 were 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 either the United States or Australia, subject to applicable regulatory approval. We plan to conduct our Phase 1 clinical trials for KLS-13023 in either the United States or 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 first half of 2021.

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. However, KLS-13019 has not been reviewed or approved for patient use by the U.S. Food and Drug Administration or any other healthcare authority in the world.

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's ("FDA") Office of Orphan Products Development (the "OOPD") for the use of CBD in the treatment of overt hepatic encephalopathy ("OHE"). The Company has received notice from the OOPD 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 Coté Orphan to continue the process of responding to the OOPD's abeyance letter. On November 5, 2018, the OOPD has granted the Company a one year extension to respond to the abeyance letter until November 30, 2019. On June 28, 2019, the Company sent its response to the OOPD's abeyance letter dated November 5, 2019. On August 28, 2019, the OOPD replied with certain objections associated with the Company's request for orphan drug designation. The OOPD has given the Company until August 28, 2020 to respond to the abeyance letter dated August 28, 2019.

KLS-13023 is a proprietary formulation containing CBD that intends to enable more effective delivery of CBD via a gel capsule. 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

As a result of the unprecedented effects of COVID-19, the Company has updated its clinical timelines to give effect to the significant interruption to business and financial operations worldwide as a result of the COVID-19 crisis. The Company will continue to monitor the progress of the shutdowns currently in effect and revise its clinical timelines accordingly.

Product Candidate	Target Indication	Delivery Method	Current Development Status	Expected Next Steps
KLS-13019	Chemotherapy Induced Peripheral Neuropathy	Oral Gel Capsule	Preclinical	3Q21: Initiate Phase 1
	Mild Traumatic Brain Injury	Oral Gel Capsule	Preclinical	2Q22: Initiate Phase 1
KLS-13023	Overt Hepatic Encephalopathy	Oral Gel Capsule	Preclinical	1Q22: Initiate Phase 1
	Mild Traumatic Brain Injury	Oral Gel Capsule	Preclinical	3Q22: 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 pursing 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 will be able to raise 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 the second quarter 2021. The Company plans on entering into clinical trials sometime in the fourth quarter 2021. Additionally, the Company believes it will be able to raise 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 the second quarter 2021.

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

Our net losses were $2,366,784 and $1,632,915 for the six months ended June 30, 2020 and 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 2020 and for the next several years will be higher than in 2019 as a result of the work needed for our expected initiation of our Phase 1 clinical trials of KLS-13019 and KLS-13023. 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 2020 and for the next several years will be higher than in 2019 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, 2019, we had $4,248,000 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, 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 June 30, 2020 and 2019

Revenues

Revenues for the three months ended June 30, 2020, was $0 compared to $52,768 for the three months ended June 30, 2019. Our decrease in revenue was 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 $138,706 or 93%, to $287,665 for the three months ended June 30, 2020, from $148,959 for the three months ended June 30, 2019. The increase was primarily the result of issuance of stock options to employees.

General and Administrative Expenses

General and administrative expenses increased by $743,726 or 162%, to $1,202,307 for the three months ended June 30, 2020, from $458,581 for the three months ended June 30, 2019. This increase was primarily due to the issuance of options as part of the 2019 equity incentive plan.

Results of Operations – For the Six Month Periods Ended June 30, 2020 and 2019

Revenues

Revenues for the six months ended June 30, 2020, was $0 compared to $102,059 for the six months ended June 30, 2019. Our decrease in revenue was 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 $57,155 or 23%, to $307,392 for the six months ended June 30, 2020, from $250,237 for the six months ended June 30, 2019. The increase was primarily the result of issuance of stock options to employees.

General and Administrative Expenses

General and administrative expenses increased by $656,647 or 72%, to $1,566,414 for the six months ended June 30, 2020, from $909,767 for the six months ended June 30, 2019. This increase was primarily due to the issuance of stock options as part of the 2019 equity incentive plan.

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 June 30, 2020, our principal sources of liquidity were our cash and cash equivalents, which totaled $148,397. Our working capital deficit was $(2,033,233) as of June 30, 2020.

Equity Financings

For the six months ended June 30, 2020, and year ended December 31, 2019, we received net proceeds of $522,150 and $344,000, from the sale of convertible notes. We received $84,200 and $100,000 from the sale of promissory notes for the six months ended June 30, 2020 and year ended December 31, 2019, respectively.

Debt

We had the following schedule of debt as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Outstanding Debt Obligations:		
Loan payable	$ 704,200	$ 620,000
Loan payable - related party	42,092	42,092
Convertible notes payable	481,989	378,839
Convertible notes payable – related party	33,014	—
Capital lease obligations	31,641	35,297
Total All Debt Obligations	$ 1,292,936	$ 1,076,228

Future Capital Requirements

The Company is currently raising capital and we anticipate raising funds sufficient to commence a Phase 1 clinical trials for KLS-13019 for patients with chemotherapy induced peripheral neuropathy. We anticipate, based on current estimates, that costs associated Phase 1 clinical trials for KLS-13019 will be approximately $2.75 million.

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 six months ended June 30, 2020, and 2019.

	Six Months Ended June 30,	
	2020	**2019**
Statement of Cash Flows Data:		
Total net cash provided by (used in):		
Operating activities	$ (575,752)	$ (1,303,127)
Investing activities	—	1,532,986
Financing activities	602,694	97
Increase in cash	$ 26,942	$ 229,956

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2020 was $(575,752), including $1,647,583 of net non-cash expenses and a $143,449 net change in operating assets and liabilities. The net noncash expenses were predominantly related to the stock based compensation of $1,182,019, non-cash interest expense of $429,470, amortization of debt discount of $136,164 and change in fair value of derivative liabilities of $(121,389). The change in operating assets and liabilities was primarily due to a $61,476 increase in accounts payable and accrued expenses, a $61,418 increase in payroll and related liabilities and a $20,555 increase in due to related party and prepaid expenses.

Net cash used in operating activities for the six months ended June 30, 2019 was $(1,303,127), including $219,007 of net non-cash expenses and a $110,781 net change in operating assets and liabilities. The net noncash expenses were predominantly related to the net gains and losses on marketable security of $213,664. The change in operating assets and liabilities was primarily due to a $49,480 decrease on other receivables and a $43,953 increase in accounts payable and accrued expenses.

Investing Activities

Net cash provided by investing activities for the six months ended June 30, 2020 was $0.

Cash provided by investing activities from the cash received from the sale of marketable securities was $1,560,476 offset by a purchase of an asset for ($27,490), for the six months ended June 30, 2019.

Financing Activities

For the six months ended June 30, 2020, cash provided by financing activities was $602,694 compared to $97 for the six months ended June 30, 2019. This was due to a significant increase of proceeds from convertible notes payable and notes payable in 2020 from 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 June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses” to improve information on credit losses for financial assets and net investment in leases that are not accounted for at fair value through net income. ASU 2016-13 replaces the current incurred loss impairment methodology with a methodology that reflects expected credit losses. In April 2019 and May 2019, the FASB issued ASU No. 2019-04, “Codification Improvements to Topic 326, Financial Instruments-Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments” and ASU No. 2019-05, “Financial Instruments-Credit Losses (Topic 326): Targeted Transition Relief” which provided additional implementation guidance on the previously issued ASU. In November 2019, the FASB issued ASU 2019-10, “Financial Instruments - Credit Loss (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842),” which defers the effective date for public filers that are considered small reporting companies (“SRC”) as defined by the Securities and Exchange Commission to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Since the Company is an SRC, implementation is not needed until January 1, 2023. The Company will continue to evaluate the effect of adopting ASU 2016-13 will have on the Company’s condensed 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 June 30, 2020, 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 2020 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 six month period ended June 30, 2020, 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 Statue 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.

Subsequently, Kannalife and Mr. Petkanas filed a motion to dismiss the new lawsuit on grounds of res judicata. The Plaintiff-Appellant filed a cross-motion for a stay.

On October 30, 2019, the Court ruled in favor of Kannalife and Mr. Petkanas, stating "The motion to dismiss is granted to the extent that the matter is dismissed on the ground of res judicata, and cross-motion for a stay is denied, in accordance with the reasons set forth in the Court's oral decision of October 30, 2019, following oral argument. This constitutes the Decision and Order of this Court".

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.

Please carefully consider the information set forth in this Quarterly Report on Form 10-Q and the risk factors discussed in Part I, Item I A. of our Annual Report on Form 10-K for the year ended December 31, 2019, which could materially affect our business, financial condition or future results. In evaluating our business, you should carefully consider the risk factors discussed in our Annual Report on Form 10-K, as updated by our subsequent filings under the Exchange Act. The occurrence of any of the risks discussed in such filings, or other events that we do not currently anticipate or that we currently deem immaterial, could harm our business, prospects, financial condition and results of operations. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Our business may be subject to risks arising from pandemic, epidemic, or an outbreak of diseases, such as the outbreak of COVID-19.

The outbreak of the novel strain of coronavirus, or COVID-19, which has been declared by the World Health Organization to be a "pandemic," has spread across the globe and is impacting worldwide economic activity. Our business may be negatively affected by a range of external factors related to COVID-19 that are not within our control. For example, numerous measures have been implemented by governmental authorities across the globe to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations of public gatherings, and business limitations and shutdowns.

The impacts of COVID-19 on our business, suppliers, employees, markets and financial results and condition are uncertain, evolving and dependent on numerous unpredictable factors outside of our control, including:

- the spread, duration and severity of COVID-19 as a public health matter and its impact on governments, businesses and society generally;
- the measures being taken by governments, businesses and society in response to COVID-19 and the effectiveness of those measures;
- the scope and effectiveness of fiscal and monetary stimulus programs and other legislative and regulatory measures being implemented by federal, state and local governments in response to COVID-19;
- the duration and impact of the numerous measures implemented by governmental authorities throughout the country to contain COVID-19, including travel bans and restrictions, quarantines, shelter-in-place orders, restrictions and limitations on public gatherings, and business limitations and shutdowns; and
- the increase in business failures or slowdowns among our suppliers and other businesses; and
- our contractors, suppliers, and other partners being prevented from conducting business activities for an indefinite period of time

While it is not possible at this time to estimate the impact that COVID-19 could have on our business, if we are not able to respond to and manage the impact of such events effectively, it may adversely impact our business, financial condition or results of operations.

COVID-19 may also have the effect of heightening many of the other risks described in the "Risk Factors" section of our Annual Report on Form 10-K. We will continue to evaluate the nature and extent of the impact of COVID-19 may have on our business.

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

The information set forth below relates to our issuances of securities without registration under the Securities Act of 1933 during the reporting period which were not previously included in an Annual Report on Form 10-K, Quarterly Report on Form 10-Q, or Current Report on Form 8-K.

On April 28, 2020, the Company issued 25,000 shares of common stock to a research organization in exchange for certain intellectual property rights.

On May 4, 2020, the Company granted options to purchase 6,050,000 shares of common stock at a price of $0.57 per share to certain directors and employees of the Company (including our named executive officers) and are exercisable for ten years. One quarter of these options vest on the grant day, and the remainder of the options vest equally over thirty six (36) months starting January 1, 2020.

These securities were issued pursuant to Section 4(a)(2) of the Securities Act and/or Rule 506 promulgated thereunder. The holders represented their intention to acquire the securities for investment only and not with a view towards distribution. The investors were given adequate information about us to make an informed investment decision. We did not engage in any general solicitation or advertising.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit Number	Description
31.1*	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
31.2*	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
32.1 *	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 **
32.2*	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 **
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.

KANNALIFE, INC.

Date: August 12, 2020

By: */s/ Dean Petkanas*
Dean Petkanas
Chief Executive Officer and Chairman

(Principal Executive Officer)

Date: August 12, 2020

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

Exhibit 31.1

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: August 12, 2020

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL 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: August 12, 2020

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

Exhibit 32.1

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 June 30, 2020, 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: August 12, 2020

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

Exhibit 32.2

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 June 30, 2020, 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: August 12, 2020

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