ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Jones Soda Co.
Seattle, Washington

Opinion on the Consolidated Financial Statements

We have audited the accompanying balance sheets of Jones Soda Co. (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of operations, comprehensive loss, shareholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2021, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Promotional allowances

As described in Note 1 to the Company's consolidated financial statements, the Company's revenue is recorded net of promotional allowances. The recognition of these promotional allowances requires the Company to make estimates regarding the volume of sales, cost of the promotional allowances, and amount of the promotional allowances that are expected to be redeemed. These estimates are made using various information including historical and forecasted data.

We identified the estimation of promotional allowances as a critical audit matter. In estimating the promotional allowances, management's estimates include (i) determining the completeness of the various promotional allowances with customers and the forecasted sales volume for the period, and (ii) assessing the amount of promotional allowances that are expected to be redeemed subsequent to period end. Auditing of this estimate involves additional audit effort due to the varying terms of the promotional allowances and the uncertainty of the timing and utilization of the promotional allowances.

The primary procedures we performed to address this critical audit matter included:

- Assessing management's judgment and assumptions included in the estimation of the liability for promotional allowances by: (i) analyzing the customer base and historical promotional allowances offered to customers, and (ii) testing a sample of transactions with historical promotional offer redemptions; and

- Testing the completeness and accuracy of the estimate by: (i) reperforming calculations and agreeing to historical data, (ii) comparing the estimate to the revenue for the current period and current promotional offer redemptions to historical estimates, and (iii) comparing to actual promotional allowances applied subsequent to year end to the promotional allowance estimated as of year end.

/s/ Armanino LLP

We have served as the Company's auditor since 2021.

Bellevue, Washington
March 14, 2022

JONES SODA CO.

CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
	(In thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,667	$ 4,614
Accounts receivable, net of allowance of $114 and $93	2,662	1,581
Inventory	1,923	1,856
Prepaid expenses and other current assets	358	193
Total current assets	9,610	8,244
Fixed assets, net of accumulated depreciation of $627 and $554	238	305
Right of use lease asset	365	471
Other assets	33	33
Total assets	$ 10,246	$ 9,053
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,239	$ 1,385
Accrued expenses	1,544	853
Lease liability, current portion	109	102
Taxes payable	8	6
Current portion of convertible subordinated notes payable, net	92	-
Current portion of accrued interest expense	55	-
2022 Financing Proceeds Received, Net of Closing Costs	538	-
Current portion of SBA Loan	-	140
Total current liabilities	3,585	2,486
Net convertible subordinated notes payable, net of current portion	1,778	1,386
Accrued interest expense, net of current portion	-	232
SBA loan, net of current portion	-	195
Lease liability, net of current portion	266	375
Total liabilities	5,629	4,674
Commitment and contingencies (Note 9)	-	-
Shareholders' equity:		
Common stock, no par value:		
Authorized — 100,000,000; issued and outstanding shares — 67,840,941 shares and 61,975,748 shares, respectively	76,017	73,953
Accumulated other comprehensive income	396	411
Accumulated deficit	(71,796)	(69,985)
Total shareholders' equity	4,617	4,379
Total liabilities and shareholders' equity	$ 10,246	$ 9,053

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2021	2020
	(In thousands, except share data)	
Revenue	$ 14,792	$ 11,895
Cost of goods sold	10,394	9,216
Gross profit	4,398	2,679
Operating expenses:		
Selling and marketing	3,003	2,579
General and administrative	3,302	2,928
Total operating expenses	6,305	5,507
Loss from operations	(1,907)	(2,828)
Interest income	4	24
Interest expense	(225)	(151)
Other income (expense), net	344	(15)
Loss before income taxes	(1,784)	(2,970)
Income tax expense, net	(27)	(27)
Net loss	$ (1,811)	$ (2,997)
Net loss per share - basic and diluted	$ (0.03)	$ (0.05)
Weighted average common shares outstanding - basic and diluted	65,542,609	61,792,285

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	2021	2020
	(In thousands)	
Net loss	$ (1,811)	$ (2,997)
Other comprehensive income (loss):		
Foreign currency translation adjustment	(15)	69
Total comprehensive loss	$ (1,826)	$ (2,928)

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2021 and 2020

	Common Stock								
	Number		Amount		Accumulated Other Comprehensive Income		Accumulated Deficit		Total Shareholders' Equity
			(In thousands, except share data)						
Balance as of December 31, 2019	61,566,076	$	73,773	$	342	$	(66,988)	$	7,127
Share based compensation	409,672		168		-		-		168
Beneficial conversion feature on paid-in-kind interest	-		12		-		-		12
Net loss	-		-		-		(2,997)		(2,997)
Other comprehensive income	-		-		69		-		69
Balance as of December 31, 2020	61,975,748	$	73,953	$	411	$	(69,985)	$	4,379
Share based compensation	-		147		-		-		147
Common stock issued upon conversion of notes payable	5,064,137		1,621		-		-		1,621
Issuance of common stock upon exercise of stock options	801,056		296						296
Net loss	-		-		-		(1,811)		(1,811)
Other comprehensive loss	-		-		(15)		-		(15)
Balance as of December 31, 2021	67,840,941	$	76,017	$	396	$	(71,796)	$	4,617

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2021	Year Ended December 31, 2020
	(In thousands)	
OPERATING ACTIVITIES:		
Net loss	$ (1,811)	$ (2,997)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	166	136
Stock-based compensation	144	174
Change in allowance for doubtful accounts	21	49
Forgiveness of PPP SBA loan	(335)	-
Loss on sale of fixed asset	5	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,129)	(46)
Inventory	(66)	(63)
Prepaid expenses and other current assets	(164)	83
Accounts payable	(147)	824
Accrued expenses	783	307
Taxes payable	1	(4)
Other liabilities	4	5
Net cash used in operating activities	(2,528)	(1,532)
INVESTING ACTIVITIES:		
Sale of fixed assets	4	-
Purchase of fixed assets	(35)	(214)
Net cash used in investing activities	(31)	(214)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	296	-
Proceeds from issuance of convertible notes, net	1,778	
Proceeds from 2022 convertible notes prior to close, net	538	
Proceeds from PPP SBA loan	-	335
Payment of taxes on RSU withholding	-	(6)
Net cash provided by financing activities	2,612	329
Net change in cash and cash equivalents	53	(1,417)
Effect of exchange rate changes on cash	-	62
Cash and cash equivalents, beginning of period	4,614	5,969
Cash and cash equivalents, end of period	$ 4,667	$ 4,614
Supplemental disclosure:		
Cash paid during period for:		
Income taxes	$ 24	$ 22
Supplemental disclosure of non-cash transactions:		
Conversion of notes payable	$ 1,621	$ -
Recognition of lease liability and right-of-use asset	-	556
Beneficial conversion feature on convertible notes and accrued interest	4	12

See accompanying notes to consolidated financial statements.

JONES SODA CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2021 and 2020

1. Nature of Operations and Summary of Significant Accounting Policies

Jones Soda Co. develops, produces, markets and distributes premium beverages which it sells and distributes primarily in the United States and Canada through its network of independent distributors and directly to its national and regional retail accounts.

In addition, following the closing of the Plan of Arrangement, we intend to use the proceeds from our recent financings exclusively for the purpose of expanding our business to the production of cannabis-containing beverages and related products.

We are a Washington corporation and havethree operating subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., and Jones Soda Cannabis Inc. (Subsidiaries).

Basis of presentation and consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) and the Securities and Exchange Commission (SEC) rules and regulations applicable to financial reporting. The consolidated financial statements include our accounts and accounts of our wholly owned subsidiaries. All intercompany transactions between us and our subsidiaries have been eliminated in consolidation.

Liquidity

As of December 31, 2021 and 2020, we had cash and cash-equivalents of approximately $4.7 million and $4.6 million, respectively, and working capital of approximately $6.0 million and $5.8 million, respectively. Net cash used in operations during fiscal years 2021 and 2020 totaled approximately $2.5 million and $1.5 million, respectively. Net cash used in operations increased primarily due to the timing of receivables and payables. Our cash flows vary throughout the year based on seasonality.

For the year ended December 31, 2021, net cash provided by financing activities totaled approximately $2.6 million due to net proceeds we received of $1.7 million in connection with the issuance of an unsecured convertible debenture to SOL Verano Blocker 1 LLC (the “2021 Debenture”). In addition, we received net proceeds of $538,000 prior to December 31, 2021 of the total $3,000,000 in aggregate principal amount of 3.00% unsecured convertible debentures that closed on February 9, 2022 (the “Contingent Convertible Debentures”). For the year ended December 31, 2020, net cash provided by financing activities totaled approximately $329,000 due to the loan proceeds of approximately $335,000 under the Paycheck Protection Program, established as part of the Coronavirus Aid, Relief and Economic Security Act. This loan was fully forgiven in May of 2021. We incurred a net loss of approximately $1.8 million for the year ended December 31, 2021 compared to a net loss of approximately $3.0 million for the year ended December 31, 2020. Our accumulated deficit increased to $71.8 million as of December 31, 2021 compared to an accumulated deficit of $70.0 million as of December 31, 2020.

In addition to the 2021 Debenture with SOL Verano Blocker 1 LLC, we received proceeds from two separate transactions subsequent to December 31, 2021 as described below and in Note 13. Specifically, on February 9, 2022 we issued $3,000,000 in aggregate principal amount of the Contingent Convertible Debentures and on February 15, 2022, and upon the consummation of the Plan of Arrangement the Company received the $8,000,000 in gross proceeds from the Pinestar Subscription Receipt offering completed prior to the Plan of Arrangement. The Plan of Arrangement resulted in issuance of an aggregate of 20,000,048 Jones Shares in connection with the completion of the previously announced acquisition of all the issued and outstanding common shares of Pinestar by way of a statutory plan of arrangement whereby the outstanding Pinestar Shares were exchanged for newly issued Jones Shares on a one-for-one basis. Therefore, currently, based upon our near-term anticipated level of operations and expenditures, management believes that cash on hand, is sufficient to enable us to fund operations for 12 months from the date the financial statements included in this Report are issued.

During 2021 and 2020, we received $296,000 and $0, respectively, from the cash exercise of stock options. From time to time, we may receive additional cash through the exercise of stock options or stock warrants. However, we cannot predict the timing or amount of cash proceeds we may receive from the exercise, if at all, of any of the outstanding stock options or warrants.

We may require additional financing to support our working capital needs in the future. The amount of additional capital we may require, the timing of our capital needs and the availability of financing to fund those needs will depend on a number of factors, including our strategic initiatives and operating plans, the performance of our business and the market conditions for available debt or equity financing. Additionally, the amount of capital required will depend on our ability to meet our sales goals and otherwise successfully execute our operating plan. We believe it is imperative that we meet these sales objectives in order to lessen our reliance on external financing in the future. We intend to continually monitor and adjust our operating plan as necessary to respond to developments in our business, our markets and the broader economy. In addition, the continuation of the COVID-19 pandemic and uncertain market conditions may limit our ability to access capital, may reduce demand for certain products, and may negatively impact our supply chain. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Moreover, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of our company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, a rights offering, and other strategic alternatives; however, these options may not ultimately be available or feasible when needed.

Use of estimates

The preparation of the consolidated financial statements requires management to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, inventory valuation, depreciable lives and valuation of capital assets, valuation allowances for receivables, trade promotion liabilities, stock-based compensation expense, valuation allowance for deferred income tax assets, contingencies, and forecasts supporting the going concern assumption and related disclosures. Actual results could differ from those estimates.

Cash and cash equivalents

We consider all highly liquid short-term investments with an original or remaining maturity of three months or less at the date of purchase to be cash equivalents.

Fair value of financial instruments

Applicable accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). We measure our assets and liabilities using inputs from the following three levels of the fair value hierarchy: Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date, Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by market data by correlation or other means, and Level 3 includes unobservable inputs that reflect assumptions about what factors market participants would use in pricing the asset or liability and are developed based on the best information available, including our own data.

The carrying amounts for cash and cash equivalents, receivables, and payables approximate fair value due to the short-term maturity of these instruments. During the first half of 2018, we issued an aggregate principal amount of $2,920,000 of convertible subordinated promissory notes (the “2018 Convertible Notes”). The fair value remaining of 2018 Convertible Notes outstanding was approximately $110,000 and $1,483,000 as of December 31, 2021 and 2020, respectively. The fair value of the 2018 Convertible Notes was estimated using a discounted cash flow analysis based on current market interest rates, which represent level 2 inputs in the fair value hierarchy.

On July 14, 2021, we issued the 2021 Debenture to SOL Verano Blocker 1 LLC. The fair value remaining of the 2021 Debenture outstanding was approximately $1,984,000 as of December 31, 2021. The fair value of the 2021 Debenture was estimated using a discounted cash flow analysis based on current market interest rates, which represent level 2 inputs in the fair value hierarchy.

Accounts receivable

Our accounts receivable balance primarily includes balances from trade sales to distributors and retail customers. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance for doubtful accounts based primarily on historical write-off experience. Account balances that are deemed uncollectible, are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Allowances for doubtful accounts of approximately $114,000 and $93,000 as of December 31, 2021 and 2020, respectively, are netted against accounts receivable. Changes in accounts receivable are primarily due to the timing and magnitude of orders of products, the timing of when control of products is transferred to distributors and the timing of cash collections.

Activity in the allowance for doubtful accounts consists of the following for the years ended December 31 (in thousands):

	2021	2020
Balance, beginning of year	$ 93	$ 44
Net charges to bad debt expense	42	95
Write-offs	(21)	(46)
Balance, end of year	$ 114	$ 93

As of December 31, 2021, one customer made up 19% of our outstanding accounts receivable. As of December 31, 2020, one customer made up 18% of our outstanding accounts receivable.

Inventories

Inventories consist of raw materials and finished goods and are stated at the lower of cost or net realizable value and include adjustments for estimated obsolete or excess inventory. Cost is based on actual cost on a first-in first-out basis. Raw materials that will be used in production in the next twelve months are recorded in inventory. The provisions for obsolete or excess inventory are based on estimated forecasted usage of inventories. A significant change in demand for certain products as compared to forecasted amounts may result in recording additional provisions for obsolete inventory. Provisions for obsolete or excess inventory are recorded as cost of goods sold and totaled $27,000 and $77,000 for the years ended December 31, 2021 and 2020, respectively.

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation and are depreciated on the declining balance basis over the estimated useful lives of the assets as follows:

Asset	Rate
Equipment	20% to 30%
Vehicles and office and computer equipment	30%

Impairment of long-lived assets

Long-lived assets, which include fixed assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Long-lived assets are grouped at the lowest level for which there are identifiable cash flows when evaluating for impairment. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Foreign currency translation

The functional currency of our Canadian subsidiary is the Canadian dollar. We translate assets and liabilities related to these operations to U.S. dollars at the exchange rate in effect at the date of the consolidated balance sheet; we convert revenues and expenses into U.S. dollars using the average monthly exchange rates. Translation gains and losses are reported as a separate component of accumulated other comprehensive income. Transaction gains and losses arising from the transactions denominated in a currency other than the functional currency are included in other expense, net in the accompanying consolidated statement of operations. Net transaction gain was $18,000 for 2021 and a net transaction loss of $22,000 for 2020.

Revenue recognition

The Company recognizes revenue under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, ("ASC 606"). The core principle of the revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the goods and services transferred to the customer. The following five steps are applied to achieve that core principle:

Step 1: Identify the contract with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the company satisfies a performance obligation

See Note 11, Segment information, for information on revenue disaggregated by geographic area.

Because the Company's agreements have an expected duration of one year or less, the Company has elected the practical expedient in ASC 606-10-50-14(a) to not disclose information about its remaining performance obligations.

Our contracts have a single performance obligation which is satisfied at the point in time when the customer has title and the significant risks and rewards of ownership of the product. Effective March 1, 2021, title and the significant risk and rewards of ownership are deemed to transfer when products are loaded onto a truck for shipment or Free on Board ("FOB") shipping point. Prior to March 1, 2021, shipping terms varied from customer to customer. The Company primarily receives fixed consideration for sales of product, subject to adjustment as described below. Shipping and handling amounts paid by customers are primarily for online orders, and are included in revenue, and totaled $120,000 and $70,000 for the years ended December 31, 2021 and 2020, respectively. Sales tax and other similar taxes are excluded from revenue.

Revenue is recorded net of provisions for discounts, slotting fees payable by us to retailers to stock our products and promotion allowances. Discounts, slotting fees and promotional allowances vary the consideration the Company is entitled to in exchange for the sale of products to distributors. The Company estimates these discounts, slotting fees and promotional allowances in the same period that the revenue is recognized for product sales to customers. These estimates are based on contract terms and our historical experience with similar programs and require management judgement with respect to estimating customer participation and performance levels. Differences between estimated expense and actual costs are normally insignificant and are recognized in earnings in the period such differences are determined. The amount of revenue recognized represents the amount that will not be subject to a significant future reversal of revenue. The liability for promotional allowances is included in accrued expenses on the consolidated balance sheets. Amounts paid for slotting fees are recorded as prepaid expenses on the consolidated balance sheets and amortized over the corresponding term. For the years ended December 31, 2021 and 2020, our revenue was reduced by approximately $1.4 million and $1.6 million, respectively, for slotting fees and promotion allowances.

All sales to distributors and customers are generally final. In limited instances we may accept returned product due to quality issues or distributor terminations, and in such situations we would have variable consideration. To date, returns have not been material. The Company's customers generally pay within 30 days from the receipt of a valid invoice. The Company offers prompt pay discounts of up to 2% to certain customers typically for payments made within 15 days. Prompt pay discounts are estimated in the period of sale based on experience with sales to eligible customers. Early pay discounts are recorded as a deduction to the accounts receivable balance presented on the consolidated balance sheets.

Advertising costs

Advertising costs, which also include promotions and sponsorships, are expensed as incurred. During the years ended December 31, 2021 and 2020, we incurred advertising costs of $731,000 and $557,000, respectively.

Income taxes

We account for income taxes by recognizing the amount of taxes payable for the current year and deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We perform periodic evaluations of recorded tax assets and liabilities and maintain a valuation allowance, if considered necessary based on whether they are more likely than not to be realized. The determination of taxes payable for the current year includes estimates. We believe that we have appropriate support for the income tax positions taken, and to be taken, on our tax returns and that our accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. No reserves for an uncertain income tax position have been recorded for the years ended December 31, 2021 or 2020.

Net loss per share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the periods. Diluted earnings per share is computed by adjusting the weighted average number of common shares by the effective net exercise or conversion of all dilutive securities. Due to the net loss in 2021 and 2020, outstanding stock options amounting to 3,509,261 and 3,589,783 shares, and shares issuable upon the conversion of the 2018 Convertible Notes of 4,421,539 and 5,372,440, respectively, were anti-dilutive.

Comprehensive loss

Comprehensive loss is comprised of net loss and translation adjustments. We do not provide income taxes on currency translation adjustments, as the historical earnings from our Canadian subsidiary is considered to be indefinitely reinvested.

Seasonality

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Sales may fluctuate materially on a quarter to quarter basis or an annual basis when we launch a new product or fill the "pipeline" of a new distribution partner or a large retail partner. Sales results may also fluctuate based on the number of SKUs selected or removed by our distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

Deferred financing costs

We defer costs related to the issuance of debt which are included on the accompanying balance sheets as a deduction from the debt liability. Deferred financing costs are amortized over the term of the related loan and are included as a component of interest expense on the accompanying consolidated statements of operations.

Recent accounting guidance

In August, 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-06, "Debt-Debt with Conversion and other options" which simplifies the accounting for convertible debt instruments and convertible preferred stock. The ASU is effective for public companies for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the impact ASU 2020-06 could have on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Credit Losses ("ASU 2016-13"), which changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses will require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU is effective for us in the first quarter of 2023 and must be adopted using a modified retrospective transition approach. We are currently evaluating the potential impact that the adoption of ASU 2016-13 will have on our consolidated financial statements.

2. Inventory

Inventory consisted of the following as of December 31 (in thousands):

	December 31, 2021	December 31, 2020
Finished goods	$ 1,361	$ 1,142
Raw materials	562	714
	$ 1,923	$ 1,856

Finished goods primarily include product ready for shipment, as well as promotional merchandise held for sale. Raw materials primarily include ingredients, concentrate and packaging.

3. Fixed Assets

Fixed assets consisted of the following as of December 31 (in thousands):

	2021	2020
Vehicles	$ 496	$ 525
Leasehold improvements and equipment	210	146
Office and computer equipment	159	188
	865	859
Accumulated depreciation	(627)	(554)
	$ 238	$ 305

4. Accrued Expenses

Accrued expenses consisted of the following as of December 31 (in thousands):

	2021	2020
Employee benefits	$ 405	$ 86
Selling and marketing	354	187
Other accruals	785	580
	$ 1,544	$ 853

5. Convertible Debentures

2018 Convertible Subordinated Note Payable

On March 23, 2018, and April 18, 2018, we issued and sold an aggregate principal amount of $2,920,000 of convertible subordinated promissory notes (the "2018 Convertible Notes") to institutional investors and our management team, and other individual investors.

The 2018 Convertible Notes have a four-year term from the date of issuance and bear interest at 6% per annum until maturity on March 23, 2022, and April 18, 2022. The holders can convert the 2018 Convertible Notes at any time into the number of shares of our common stock equal to the quotient obtained by dividing (i) the amount of the unpaid principal and interest on such 2018 Convertible Note by (ii) $0.32 (the "Conversion Price"). The Conversion Price is subject to anti-dilution adjustment on a broad-based, weighted average basis if we issue shares or equity-linked instruments at a conversion price below $0.32 per share. No payments of principal or interest are due until the maturity.

The 2018 Convertible Notes are subordinated in right of payment to the prior payment in full of all of our Senior Indebtedness, which is defined as amounts due in connection with our indebtedness for borrowed money to banks, commercial finance lenders, or other lending institutions regularly engaged in the business of lending money, with certain restrictions.

During the year ended December 31 2021, 2018 Convertible Notes in the aggregate principal amount of $1.4 million and related accrued interest were converted into an aggregate of 5,064,137 shares of common stock in accordance with the original terms of the 2018 Convertible Notes. As a result, the carrying amount of the converted principal amount of such 2018 Convertible Notes, along with the converted accrued interest, in an aggregate amount of $801,000, was credited to common stock and unamortized discounts in an amount equal to $36,000 were recognized as interest expense for the year ended December, 2021. There were no 2018 Convertible Notes converted during the year ended December 31, 2020.

The fair value of our common stock on the March 23, 2018, closing date for the issuance of the 2018 Convertible Notes was $0.36 per share, therefore, the 2018 Convertible Notes contained a beneficial conversion feature with an aggregate intrinsic value of $350,000. The fair value of our common stock on the April 18, 2018, closing date for the issuance of the 2018 Convertible Notes was $0.30 per share, which did not result in an additional beneficial conversion feature. The resulting debt discount for the 2018 Convertible Notes issued on March 23, 2018 is presented as a direct deduction from the carrying value of the 2018 Convertible Notes and was recorded with an increase to additional paid-in capital. The discount along with the related closing costs amounting to $137,000 are amortized through interest expense over the term of the 2018 Convertible Notes. The balance of notes payable is presented net of unamortized discounts amounting to $1,000 and $88,000 at December 31, 2021 and 2020, respectively. The principal balance of notes payable to related parties amounted to $10,000 at December 31, 2021 and 2020. As of December 31, 2021, $110,000 of principal payments are due in 2022.

2021 Unsecured Convertible Debenture

On July 14, 2021, we issued the 2021 Debenture, which was a $2,000,000 unsecured convertible debenture to SOL Verano Blocker 1 LLC that was convertible into units of the company (each a "Jones Unit") at a conversion price of $0.50 per Jones Unit, with each Jones Unit consisting of one share of our common stock (each a "Jones Share") and one share purchase special warrant of Jones (each a "Jones Special Warrant"). Each Jones Special Warrant will be exercisable into one Jones Share at a price of $0.625 per Jones Share for a period of 24 months from the date of issuance, conditional upon us increasing our authorized capital to an amount to cover the Jones Shares issuable pursuant to all of the outstanding Jones Special Warrants as well as the other Jones Shares issuable pursuant to our then-outstanding convertible/exercisable securities. The 2021 Debenture accrued interest at a rate of 5.00% and we had $47,000 of interest due to SOL Verano Blocker 1 LLC on December 31, 2021.

The closing of the Plan of Arrangement (as defined below in Note 13) resulted in the automatic conversion of the 2021 Debenture into an aggregate of 4,025,035 Jones Shares and 4,025,035 Jones Special Warrants at a conversion price of $0.50 per Jones Share and Jones Special Warrant.

The terms of the 2021 Debenture restricted, amongst other things, the amount of additional debt we can incur, as well as the number of Jones Shares we can issue, without the consent of the debentureholder. The terms of the 2021 Debenture also provided that we use the principal amount of the 2021 Debenture for the costs and expenses associated with pursuing and completing the Plan of Arrangement, and for the purpose of expanding our business to the production of cannabis-containing beverages and related products.

6. Lease Obligations

We currently lease approximately 6,500 square feet of retail/office space in Seattle, Washington for our principal executive and administrative offices. The initial term of the lease was five years; in February 2020, we amended the lease to extend the term through February 28, 2025. As a result of the lease amendment, we recognized a lease liability and right-of-use asset of $556,000 which represents the remaining lease payments discounted at a rate of 4%. As of December 31, 2021, this lease had a remaining lease term of 3.17 years.

During the years ended December 31, 2021 and 2020, we incurred rental expenses of $164,000 and $162,000 respectively. During the years ended December 31, 2021 and 2020, we made cash payments of $160,000 and $158,000, respectively.

Management fees and other operational expenses were immaterial. Cash payments on our operating lease are presented as operating cash outflows in the consolidated statements of cash flows. Under the lease amendment, the annual payments excluding management fees and other operations expenses will be as follows (in thousands):

2022	$	122
2023		126
2024		130
2025		22
Total lease payments		400
Less: imputed interest		(25)
Total remaining lease liability	$	375

7. Shareholders' Equity

Under the terms of our 2011 Equity Incentive Plan (the "Plan"), the number of shares authorized under the Plan may be increased each January 1st by an amount equal to the least of (a) 1,300,000 shares, (b) 4.0% of our outstanding common stock as of the end of our immediately preceding fiscal year, and (c) a lesser amount determined by the Board of Directors (the Board), provided that the number of shares that may be granted pursuant to awards in a single year may not exceed 10% of our outstanding shares of common stock on a fully diluted basis as of the end of the immediately preceding fiscal year.

Under the terms of the Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Awards may consist of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance awards or other stock or cash-based awards. Stock options are granted at the closing price of our stock on the date of grant, and generally have a ten-year term and vest over a period of 48 months with the first 25.0% cliff vesting one year from the grant date and monthly thereafter.

In March 2021, the Board approved the readoption of the Plan to extend the expiration date thereof from April 1, 2021 to April 1, 2023 and obtained shareholder approval of such readoption at the annual meeting of shareholders held on May 13, 2021.

On September 30, 2021, our board of directors, upon the recommendation of our compensation committee, approved an amendment to the Plan to decrease the number of shares of common stock available for issuance pursuant to future awards under the Plan from 4,785,597 shares of common stock to 2,500,000 shares of common stock. As of such date, there were outstanding awards exercisable into an aggregate of 3,194,573 shares of common stock previous granted under the Plan; after such amendment, there is an aggregate of 5,694,573 shares of common stock reserved for issuance under the Plan. In addition, the Board approved an amendment to the outstanding awards previously granted under the Plan to provide that upon the closing of the Arrangement (as defined below), the vesting of such awards was accelerated, and such awards became immediately vested in full and the restrictions thereon lapsed.

As of December 31, 2021, there were 2,389,062 shares of unissued common stock authorized and available for future awards under the Plan.

(a) Stock options:

A summary of our stock option activity is as follows:

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price (Per Share)
Balance at January 1, 2021	3,589,783	$ 0.36
Options granted	1,323,450	0.49
Options exercised	(797,306)	0.37
Options forfeited/expired	(810,416)	0.48
Balance at December 31, 2021	3,305,511	$ 0.38
Exercisable, December 31, 2021	1,616,439	$ 0.34
Vested and expected to vest	2,808,039	$ 0.37

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
Balance at January 1, 2020	3,495,601	$ 0.46
Options granted	1,329,450	0.21
Options cancelled/expired	(1,235,268)	0.49
Balance at December 31, 2020	3,589,783	$ 0.36
Exercisable, December 31, 2020	2,544,290	$ 0.40
Vested and expected to vest	3,310,406	$ 0.37

The following table summarizes information about stock options outstanding and exercisable under our stock incentive plans at December 31, 2021:

			Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share
$0.15	to	$0.50	2,920,511	7.42	$ 0.31	1,556,439	6.11	$ 0.32
$0.51	to	$1.09	380,000	8.55	0.87	60,000	1.67	0.81
$1.10	to	$2.99	5,000	9.59	1.33	-	-	-
			3,305,511	7.56	0.38	1,616,436	5.94	0.34

(b) Restricted stock awards:

Prior to December 31, 2019, equity compensation for non-employee director service consisted of an annual restricted stock unit award that vested over one year, with the number of shares underlying such award being determined by dividing $15,000 by the closing share price on the date of grant (which was the first business day in January in each calendar year); when joining the Board each non-employee director received an initial restricted stock unit award that vested over one year, the number of shares underlying such award being determined by dividing $15,000 by the Company's closing stock price on the date of grant (which was the first trading day following the date on which such director was appointed), prorated based on the date on which such director was appointed.

There was no restricted stock activity during 2021. A summary of our 2020 restricted stock activity is as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value	Weighted-Average Contractual Life
Non-vested restricted stock at January 1, 2020	149,824	$ 0.33	9.1
Vested	(149,824)	0.33	—
Non-vested restricted stock at December 31, 2020	—	$ —	—

We withheld a total of 17,928 shares as payment for withholding taxes due in connection with the vesting of restricted stock awards during the period ending December 31, 2020, and the average price paid per share of $0.31 reflects the average market value per share of the shares withheld for tax purposes.

Commencing as of January 1, 2020, equity compensation for non-employee director service consists of the grant of an annual non-qualified stock option award that vests on the first anniversary of the date of grant (subject to the director's continuing service as of such anniversary date), with the number of shares underlying such award determined by dividing $25,000 by the closing stock price (as quoted on the OTCQB marketplace) on the date of grant (which shall be the first trading day in January in each calendar year), and such stock option award shall have an exercise price equal to our closing stock price (as quoted on the OTCQB marketplace) on the date of grant. When joining our board of directors, each non-employee director shall be granted a non-qualified stock option award that vests on the first anniversary of the date of grant (subject to the director's continuing service as of such anniversary date), with the number of shares underlying such award determined by dividing $25,000 by our closing stock price on the first trading day following the date on which such director is appointed), prorated based on the date on which such director is appointed, and which stock option shall be granted as of the first trading day following the date on which such director was appointed, and shall have an exercise price equal to our closing stock price (as quoted on the OTCQB marketplace) on the date of grant.

(c) Stock-based compensation expense:

Stock-based compensation expense is recognized using the straight-line attribution method over the employees' requisite service period. We recognize compensation expense for only the portion of stock options or restricted stock expected to vest. Therefore, we apply estimated forfeiture rates that are derived from historical employee termination behavior. If the actual number of forfeitures differs from those estimated by management, additional adjustments to stock-based compensation expense may be required in future periods.

At December 31, 2021, we had unrecognized compensation expense related to stock options and non-vested stock of $242,000 to be recognized over a weighted-average period of 2.9 years.

The following table summarizes the stock-based compensation expense (in thousands):

	Year Ended December 31,	
	2021	2020
Type of awards:		
Stock options	$ 144	$ 162
Restricted stock	-	12
	$ 144	$ 174
Income statement account:		
Selling and marketing	$ 42	$ 65
General and administrative	102	109
	$ 144	$ 174

We employ the following key weighted-average assumptions in determining the fair value of stock options, using the Black-Scholes option pricing model and the simplified method to estimate the expected term of "plain vanilla" options:

	Year Ended December 31,	
	2021	2020
Expected dividend yield	—	—
Expected stock price volatility	74.7%	72.9%
Risk-free interest rate	0.9%	0.8%
Expected term (in years)	5.8	5.6
Weighted-average grant date fair-value	$ 0.32	$ 0.13

During the year ended December 31, 2021, no material modifications were made to outstanding stock options.

The aggregate intrinsic value of stock options outstanding at December 31, 2021 and 2020 was $1.3 million and $51,000, respectively and for options exercisable was $690,000 and $20,000, respectively. The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date less the exercise price of the option. The total intrinsic value of options exercised during the year ended December 31, 2021 and 2020 was 435,000 and zero, respectively. During the years ended December 31, 2021 and 2020, there were 797,306 and zero options exercised, respectively. The Company's policy is to issue new shares upon exercise of options.

(d) Equity financing:

On July 11, 2019, the Company entered into a securities purchase agreement (the "Purchase Agreement") with Heavenly Rx Ltd. (the "Investor") pursuant to which the Company sold to the Investor in a private placement (the "Financing"): (a) 15,000,000 shares (the "Shares") of common stock and (b) a warrant to purchase up to an additional 15,000,000 shares of common stock (the "Warrant"). The aggregate purchase price for the Shares and the Warrant was $9,000,000 in cash, which was paid to the Company at the closing of the purchase and sale on July 11, 2019, and is presented net of offering costs of $183,000. The Company continues to use the proceeds for general working capital and other purposes, including sales and marketing, product development and capital expenditures for its legacy business and new business initiatives. The Warrant expired on July 11, 2020 in accordance with its terms.

The relative fair value of the net proceeds allocated to the common stock was estimated to be $6,782,000. The relative fair value of the net proceeds allocated to the Warrant was estimated to be $2,035,000 as determined based on the relative fair value allocation of the proceeds received. The Warrant was valued using the Black-Scholes option pricing model using the following variables: market price of common stock - $0.517 per share; estimated volatility – 108.21%; 1-year risk free interest rate – 1.97%; expected dividend rate - 0% and expected life - 1 year.

(e) Services and Endorsement Agreement:

On July 27, 2020, the Board of Directors of the Company approved a Services and Endorsement Agreement (the "Services Agreement") with Tony Hawk, Inc. ("THI") pursuant to which Tony Hawk ("Hawk") provided certain marketing services on behalf of the Company. The Services Agreement had a term commencing as of June 1, 2020 and terminating as of January 31, 2021. Pursuant to the Services Agreement, the Company issued to THI 138,888 shares of the Company's Common Stock (which had an aggregate value of $25,000 as of the date of issuance), and issued to The Skatepark Project ("TSP"), an affiliate of Hawk, 138,888 shares of Common Stock (which had an aggregate value of $25,000 as of the date of issuance).

8. Employee 401(k) Plan

We have a 401(k) plan whereby eligible employees who have completed at least one hour of service per month in three consecutive months of employment may enroll. Employees can elect to contribute up to 100% of their eligible compensation to the 401(k) plan subject to Internal Revenue Service's limitations. As currently established, we are not required to make and have not made any contributions to the 401(k) plan during the years ended December 31, 2021 and 2020.

9. Commitments and Contingencies

Commitments

As of December 31, 2021, we continue to have commitments to various suppliers of raw materials (primarily glass). Purchase obligations under these commitments are expected to total $651,000 in 2022, with no current commitments thereafter.

Legal proceedings

We are or may be involved from time to time in various claims and legal actions arising in the ordinary course of business, including proceedings involving employee claims, contract disputes, product liability and other general liability claims, as well as trademark, copyright, and related claims and legal actions. In the opinion of our management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

10. Income Taxes

The provision for income taxes consisted of the following for the years ended December 31 (in thousands):

	2021	2020
Current		
State	$ 4	$ 6
Foreign	23	21
Provision for income taxes	$ 27	$ 27

Loss before provision for income taxes was as follows for the years ended December 31 (in thousands):

	2021	2020
United States	$ (1,881)	$ (3,054)
Foreign	97	84
Total	$ (1,784)	$ (2,970)

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes are as follows:

	2021	2020
Federal statutory rate	21.00%	21.00%
Effect of:		
Permanent differences	3.84	(0.07)
Stock Compensation	0.11	(3.61)
State income taxes, net of federal benefit	3.10	2.26
Change in valuation allowance	(10.27)	(17.85)
Other, net	(19.30)	(2.64)
Provision for income taxes	(1.51 %)	(0.91 %)

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred income taxes were as follows (in thousands):

	2021	2020
Federal and state net operating loss carryforwards	$ 14,896	$ 14,721
Stock-based compensation	125	179.224
Other, net	157	93
Total deferred tax asset	15,178	14,993
Valuation allowance	(15,178)	(14,993)
Net deferred tax asset	$ —	$ —

We continue to experience significant losses in our U.S. operations that are material to our decision to maintain a full valuation allowance against our net U.S. deferred tax assets. This is due to the fact that the relevant accounting guidance puts more weight on the negative objective evidence of cumulative losses in recent years than the positive subjective evidence of future projections of pretax income. For the years ended December 31, 2021 and December 31, 2020, the valuation allowance increased by $185 thousand, and $533 thousand, respectively.

We continually analyze the realizability of our deferred tax assets, but we reasonably expect to continue to record a full valuation allowance on future U.S tax benefits until we sustain an appropriate level of taxable income through improved U.S. operations and tax planning strategies.

At December 31, 2021, we had net operating loss carryforwards for federal and state income tax purposes of $56.0 million, and $18.7 respectively, which expire at various times commencing 2022. We also had net operating loss carryforwards for federal and state income tax purposes of $9.7 million, and $0.1 million, respectively, that may be carried forward indefinitely. Net operating loss carryforwards may be subject to certain limitations under Section 382 of the Internal Revenue code.

There are no uncertain tax positions to recognize as of December 31, 2021 and 2020.

The tax years that remain open to examination by the taxing authorities are 2017-2021, generally. The net operating losses for prior years are subject to adjustment under examination to the extent they remain unutilized in an open year.

On March 27, 2020 the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was signed into law. There was no financial statement impact reated to the CARES Act for the years ended December 31, 2021 and 2020.

11. Segment Information

We have one operating segment with operations primarily in the United States and Canada. Sales are assigned to geographic locations based on the location of customers. Geographic information for the years ended December 31 is as follows (in thousands):

	Year Ended December 31,	
	2021	2020
Revenue:		
United States	$ 11,385	$ 8,442
Canada	3,240	3,329
Other countries	167	124
Total revenue	$ 14,792	$ 11,895
Fixed assets:		
United States	$ 238	$ 305
Canada	—	—
Total fixed assets	$ 238	$ 305

During the year ended December 31, 2021, one of our customers represented approximately 21% of our revenues and during the year ended December 31, 2020 one of our customers represented approximately 24% of revenues.

12. Paycheck Protection Program

On April 24, 2020, we received loan proceeds of $334,500 (the “PPP Loan”) under the Paycheck Protection Program (“PPP”). The PPP, established as part of the CARES Act, provided for loans to qualifying companies in amounts up to 2.5 times their average monthly payroll expenses. Our PPP Loan was evidenced by a promissory note, dated as of April 24, 2020 (the “Note”), between us and HomeStreet Bank (the “Lender”). The Note had a two-year term and accrued interest at the rate of 1.0% per annum. No payments of principal or interest were due during the 10-month period beginning on the date of the Note (the “Deferral Period”). Furthermore, we received an extension of the first principal and interest payment date to 10 months after the last day of the Deferral Period.

Under the terms of the CARES Act, the principal and accrued interest under the Note was forgivable after 24 weeks if we used the PPP Loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and otherwise complied with PPP requirements. In May 2021, we received full forgiveness of our PPP Loan and recorded the gain on debt forgiveness in the amount of $334,500 in earnings, which was presented as “other income” on our condensed consolidated statements of operations for the year ended of December 31, 2021.

13. Subsequent Events

On February 9, 2022, we issued the Contingent Convertible Debentures, which are convertible into units of Jones (each a “Jones Unit”) at a conversion price of $0.50 per Jones Unit, with each Jones Unit consisting of one share of Jones common stock (each a “Jones Share”) and one share purchase special warrant of Jones (each a “Jones Special Warrant”). Each Jones Special Warrant will be exercisable into one Jones Share at a price of $0.625 per Jones Share for a period of 24 months from the date of issuance, conditional upon Jones increasing its authorized capital to an amount to cover the Jones Shares issuable pursuant to all of the outstanding Jones Special Warrants as well as the other Jones Shares issuable pursuant to the then outstanding convertible/exercisable securities of Jones. The Contingent Convertible Debentures are automatically convertible into Jones Units upon Jones Soda increasing its authorized capital to an amount to cover the Jones Shares issuable pursuant to all of the outstanding Contingent Convertible Debentures as well as all of the other then outstanding convertible/exercisable securities of Jones (a “Conversion Event”). The Contingent Convertible Debentures are only convertible into Jones Units upon the occurrence of a Conversion Event. The Contingent Convertible Debentures mature on February 9, 2023 (the “Maturity Date”) and shall begin to accrue interest a rate of 3.00% commencing on April 1, 2022 and such interest shall become payable on the Maturity Date. Under the terms of the Contingent Convertible Debenture, the Company covenants to the holders of the Contingent Convertible Debentures that the Company will use their commercially reasonable efforts to cause the Conversion Event to occur as soon as practicable after the closing of the Plan of Arrangement (defined below). We received net proceeds of $538,000 prior to December 31, 2021 of the total $3,000,000 in aggregate principal amount which is classified on the consolidated balance sheet in current liabilities as of December 31, 2021 under 2022 Financing Proceeds Received, Net of Closing Costs.

On February 15, 2022, Jones issued an aggregate of 20,000,048 Jones Shares in connection with the completion of the previously announced acquisition of all the issued and outstanding common shares (the “Pinestar Shares”) of Pinestar Gold Inc. (the “Pinestar”) by way of a plan of arrangement under the Business Corporations Act (British Columbia) (the “Plan of Arrangement”) whereby the outstanding Pinestar Shares were exchanged for newly issued Jones Shares on a one-for-one basis. The Plan of Arrangement had previously been approved by both Pinestar’s shareholders as well as by the Supreme Court of British Columbia after such court held a hearing on the fairness of the terms and conditions of the Plan of Arrangement at which all Pinestar shareholders had the right to appear.

In connection with the Plan of Arrangement, Pinestar completed an offering for subscription receipts (“Subscription Receipts”) for aggregate gross proceeds of $8,000,000, at a price per Subscription Receipt equal to $0.50. As part of the closing of the Plan of Arrangement, each Subscription Receipt automatically converted into one Pinestar Share and one new common share purchase warrant of Pinestar, which were then immediately exchanged for Jones Shares and Jones Special Warrants, respectively, in accordance with a 1:1 exchange ratio.

The issuance of Jones Shares to the holders of Pinestar Shares (including Pinestar Shares received upon the conversion of the Subscription Receipts) in the Plan of Arrangement was exempt from the registration requirements under the United States Securities Act of 1933, as amended (the “Securities Act”) pursuant to Section 3(a)(10) of the Securities Act, which exempts from the registration requirements under the Securities Act any securities that are issued in exchange for one or more bona fide outstanding securities where the terms and conditions of such issuance and exchange are approved, after a hearing upon the fairness of such terms and conditions at which all persons to whom it is proposed to issue securities in such exchange shall have the right to appear, by any court expressly authorized by law to grant such approval.

The closing of the Plan of Arrangement resulted in the automatic conversion of the 2021 Debenture previously issued to SOL Verano Blocker 1 LLC into an aggregate of 4,025,035 Jones Shares and 4,025,035 Jones Special Warrants at a conversion price of $0.50 per Jones Share and Jones Special Warrant. The issuance of the Jones Shares and Jones Special Warrants upon the conversion of the 2021 Debenture was exempt from registration under the Securities Act, pursuant to Section 4(a)(2) of the Securities Act and Rule 506(b) of Regulation D promulgated thereunder.