ITEM 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.***

The following discussion of our financial condition and results of operations contains forward-looking statements that involve risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. As described at the beginning of this Annual Report on Form 10-K, our actual results could differ materially from those anticipated in these forward-looking statements. Factors that could contribute to such differences include those discussed at the beginning of this Report, below in this section and in the section above entitled "Risk Factors." You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect new information, events or circumstances after the date of this Report, or to reflect the occurrence of unanticipated events. You should read the following discussion and analysis in conjunction with our consolidated financial statements and the accompanying notes thereto included elsewhere in this Report.

Overview

We develop, produce, market and distribute premium beverages that we sell and distribute primarily in North America through our network of independent distributors and directly to our national and regional retail accounts. We also sell products in select international markets. Our products are sold primarily in grocery stores, convenience and gas stores, on fountain in restaurants, "up and down the street" in independent accounts such as delicatessens, sandwich shops and burger restaurants, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery ("DSD") channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail ("DTR") channel. We do not directly manufacture our products, but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers. In addition, following the closing of the Plan of Arrangement, we intend to use the proceeds from our recent financings for the purpose of expanding our business to the production of cannabis-containing beverages and related products.

Our Focus: Sales Growth

Our focus is sales growth through execution of the following key initiatives:

- Expand the Jones Soda glass bottle business in existing and new sales channels;
- Expand our fountain program in the United States and Canada;
- Release and grow the new product line of Tetrahydrocannabinol (THC) and cannabidiol (CBD)-infused beverages, edibles, and other related products; and
- Increase distribution of Lemoncocco in the United States and Canada.

Results of Operations

Years Ended December 31, 2021 and 2020

Revenue

For the year ended December 31, 2021, revenue was approximately $14.8 million, an increase of $2.9 million, or 24.4%, from approximately $11.9 million in revenue for the year ended December 31, 2020. This increase was primarily a result of increased core bottled soda sales in the United States and Canada. Additionally, our fountain business returned to growth through increased sales in the food service channel. For the year ended December 31, 2021, promotion allowances and slotting fees, which offset revenue, totaled approximately $1.4 million, a decrease of approximately $183,000, or 11.2%, from approximately $1.6 million in 2020.

During 2021 and 2020, the percentage of our revenues generated in Canada was 22% and 28%, respectively.

Gross Profit

	Year Ended December 31,		
	2021	2020	% Change
	(Dollars in thousands)		
Gross Profit	$ 4,398	$ 2,679	64.2%
% of Revenue	29.7%	22.5%	

For the year ended December 31, 2021, gross profit increased by $1.7 million, or 64.2%, to approximately $4.4 million compared to approximately $2.7 million for the year ended December 31, 2020, driven primarily by higher revenue during the year ended December 31, 2021 as compared to the year ended December 31, 2020 and more effective management over promotional allowance and slotting fees. For the year ended December 31, 2021, gross margin increased to 29.7% from 22.5% for the year ended December 31, 2020, due primarily to the decrease in trade spend and promotional allowances for the year ended December 31, 2021 in comparison to the year ended December 31, 2020.

Selling and Marketing Expenses

Selling and marketing expenses for the year ended December 31, 2021 were approximately $3.0 million, an increase of $424,000, or 16.4%, from approximately $2.6 million for the year ended December 31, 2020. This increase was primarily a result of increased social and digital marketing expenditures incurred during the year in an effort to expand customer engagement. As revenue continues to increase, we expect that selling and marketing expenses will increase to support this growth. Selling and marketing expenses as a percentage of revenue decreased to 20.3% for the year ended December 31, 2021 from 21.7% in 2020. We will continue to work on balancing selling and marketing expenses with our working capital resources.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2021 were approximately $3.3 million, an increase of $374,000, or 12.8%, compared to approximately $2.9 million for the year ended December 31, 2020. The increase was primarily due to an increase in insurance premiums and an increase in headcount. General and administrative expenses as a percentage of revenue decreased to 22.3% for the year ended December 31, 2021 from 24.6% in 2020. We will continue work on balancing general and administrative expenses with our working capital resources.

Interest Expense

We incurred $225,000 of interest expense for the year ended December 31, 2021 compared to $151,000 for the year ended December 31, 2020. This increase was primarily related to the accrued interest associated with the 2021 Debenture entered into in July 2021. The interest expense incurred during the year ended December 31, 2020 was non-cash and primarily related to the amortization of the discount associated with the beneficial conversion feature on the 2018 Convertible Notes (as defined below), along with the amortization of associated closing costs and interest related to the 2018 Convertible Notes. For the years ended December 31, 2021 and 2020, cash paid for interest was $0.

Interest Income

We earned approximately $4,000 of interest income for the year ended December 31, 2021, compared to $24,000 for the year ended December 31, 2020. We experienced an increase in cash during July 2019 resulting from financing activities, the proceeds of which were deposited in an interest-bearing money market account and earned $24,000 of interest during the first quarter of 2020. For the year ended December 31, 2021, the interest rates associated with this money market account decreased significantly, resulting in $4,000 of interest income for the year ended December 31, 2021.

Income Tax Expense

We had income tax expense of $27,000 for each of the years ended December 31, 2021 and 2020 primarily related to the tax provision on income from our Canadian operations. We have not recorded any tax benefit for the loss in our U.S. operations as we have recorded a full valuation allowance on our U.S. net deferred tax assets. We expect to continue to record a full valuation allowance on our U.S. net deferred tax assets until we sustain an appropriate level of taxable income through improved U.S. operations. Our effective tax rate is based on recurring factors, including the forecasted mix of income before taxes in various jurisdictions, estimated permanent differences and the recording of a full valuation allowance on our U.S. net deferred tax assets.

Net Loss

Net loss for the year ended December 31, 2021 decreased to approximately $1.8 million from a net loss of $3.0 million for the year ended December 31, 2020. The decrease in net loss was primarily due to the increased revenue and gross profit during the year ended December 31, 2021, as described above, in comparison to the year ended December 31, 2020.

Liquidity and Capital Resources

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 the 2021 Debenture to SOL Verano Blocker 1 LLC. 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 the Contingent Convertible Debentures that closed on February 9, 2022. 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 issued to 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, upon the consummation of the Plan of Arrangement, we received the $8,000,000 in gross proceeds from the Pinestar Subscription Receipt offering completed prior to the closing of 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.

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During 2021 and 2020, we received $0 and $296,000, 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.

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.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations is based upon our consolidated 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 and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, or if management made different judgments or utilized different estimates. Many of our estimates or judgments are based on anticipated future events or performance, and as such are forward-looking in nature, and are subject to many risks and uncertainties, including those discussed below and elsewhere in this Report. We do not undertake any obligation to update or revise this discussion to reflect any future events or circumstances.

There are certain critical accounting estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We have identified below our accounting policies that we use in arriving at key estimates that we consider critical to our business operations and the understanding of our results of operations. This is not a complete list of all of our accounting policies, and there may be other accounting policies that are significant to us. For a detailed discussion on the application of these and our other accounting policies, see Note 1 to Consolidated Financial Statements of this Report.

Revenue Recognition

We recognize 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. We only apply the five-step model (as described in Note 1 to the Consolidated Financial Statements of this Report) to contracts when it is probable that we will collect the consideration it is entitled to in exchange for the goods and services transferred to the customer.

Inventory

We hold raw materials and finished goods inventories, which are manufactured and procured based on our sales forecasts. We value inventory at the lower of cost or net realizable value and include adjustments for estimated obsolete or excess inventory, on a first in-first out basis. These valuations are subject to customer acceptance, planned and actual product changes, demand for the particular products, and our estimates of future realizable values based on these forecasted demands. We regularly review inventory detail to determine whether a write-down is necessary. We consider various factors in making this determination, including recent sales history and predicted trends, industry market conditions and general economic conditions. The amount and timing of write-downs for any period could change if we make different judgments or use different estimates. We also determine whether a provision for obsolete or excess inventory is required on products that are over 12 months from production date or any changes related to market conditions, slow-moving inventory or obsolete products.

Trade Spend and Promotion Expenses

Throughout the year, we run trade spend and promotional programs with distributors and retailers to help promote on- shelf discounts to our consumers. Additionally, in more limited instances, we enter into customer marketing agreements or various other slotting arrangements. The provisions for discounts, slotting fees and promotion allowances is recorded as an offset to revenue and shown net on the consolidated statement of operations. Estimates are made to accrue for amounts that have not yet been invoiced in the month that the program occurs, or in the case of slotting, when the commitment is made.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

Not applicable.