The LOI also contains customary confidentiality, mutual exclusivity and standstill provisions.

In accordance with the terms of the LOI, upon completion of the Transaction, SBBC intends to change its name to "Jones Soda" or some derivation thereof and the board of directors of the combined company is intended to consist of the members of the Company's current board of directors plus an additional director to be named by SBBC.

ITEM 2. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.*

You should read the following discussion and analysis in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Report and the 2021 audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, which was filed with the Securities and Exchange Commission ("SEC") on March 14, 2022.

This Report contains forward-looking statements. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "believe," "expect," "intend," "anticipate," "estimate," "may," "will," "can," "plan," "predict," "could," "future," "continue," variations of such words, and similar expressions. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined at the beginning of this Report under "Cautionary Notice Regarding Forward-Looking Statements" and in Item 1A of our most recent Annual Report on Form 10-K filed with the SEC, and in our other reports we file with the SEC, including our periodic reports on Form 10-Q and current reports on Form 8-K. These factors may cause our actual results to differ materially from any forward-looking statements. Except as required by law, we undertake no obligation to publicly release any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Overview

We develop, produce, market and distribute premium beverages that we sell and distribute primarily in the United States and Canada 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 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.

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.

Potential Transaction with Simply Better Brands Corp.

On April 16, 2022, the Company and Simply Better Brands Corp. (“SBBC”) entered into a binding offer to purchase (the “LOI”) pursuant to which, SBBC agreed to purchase 100% of the issued and outstanding shares of the Company’s common stock (the “Jones Shares”) at a deemed value of $0.75 per Jones Share, payable in fully paid and non-assessable common shares of SBBC (“SBBC Shares”) based on a price per SBBC Share equal to $3.65 (the “SBBC Transaction”).

The SBBC Transaction is subject to a number of terms and conditions, including, but not limited to, the parties entering into a definitive agreement with respect to the Transaction on or before June 30, 2022 (such agreement to include representations, warranties, conditions and covenants typical for a transaction of this nature), mutually favorable tax and corporate structuring, the approval by shareholders of both SBBC and the Company, and the approval of the TSX Venture Exchange or such other recognized stock exchange as the SBBC Shares may become listed after completion of the Transaction, and if applicable, disinterested shareholder approval.

Each of the Company and SBBC is also subject to customary confidentiality, mutual exclusivity and standstill provisions pursuant to the terms of the LOI.

For a summary of the transaction, see Note 7 - Subsequent Events of the Notes to Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q and to our Form 8-K filed with the SEC on April 21, 2022.

Results of Operations

The following selected financial and operating data are derived from our condensed consolidated financial statements and should be read in conjunction with our condensed consolidated financial statements.

	Three months ended March 31,			
	2022	**% of Revenue**	**2021**	**% of Revenue**
	(Dollars in thousands, except per share data)			
Consolidated statements of operations data:				
Revenue	$ 4,523	100.0%	$ 2,857	100.0%
Cost of goods sold	(3,286)	(72.7)%	(2,089)	(73.1)%
Gross profit	1,237	27.3%	768	26.9%
Selling and marketing expenses	(1,143)	(25.3)%	(661)	(23.1)%
General and administrative expenses	(1,522)	(33.7)%	(756)	(26.5)%
Loss from operations	(1,428)	(31.6)%	(649)	(22.7)%
Interest income	2	0.0%	1	0.0%
Interest expense	(231)	(5.1)%	(60)	(2.1)%
Other income (expense), net	-	0.0%	(7)	(0.2)%
Loss before income taxes	(1,657)	(36.6)%	(715)	(25.0)%
Income tax expense, net	(7)	(0.2)%	(4)	(0.1)%
Net loss	$ (1,664)	(36.8)%	$ (719)	(25.2)%
Basic and diluted net loss per share	$ (0.02)		$ (0.01)	

	As of	
	March 31, 2022	**December 31, 2021**
	(Dollars in thousands)	
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	$ 15,072	$ 7,329
Fixed assets, net	222	238
Total assets	19,024	10,246
Long-term liabilities	237	2,044
Working capital	12,182	6,025

Seasonality and Other Fluctuations

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 stock keeping units or "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.

Quarter Ended March 31, 2022 Compared to Quarter Ended March 31, 2021

Revenue

For the quarter ended March 31, 2022, revenue increased by approximately $1.7 million, or 58.3%, to approximately $4.5 million compared to approximately $2.9 million for the quarter ended March 31, 2021. This increase was primarily a result of increased DSD and DTR core bottled soda sales in the United States and Canada.

For the quarter ended March 31, 2022, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $308,000, a decrease of approximately $42,000, or 12.0%, compared to approximately $350,000 for the quarter ended March 31, 2021, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the quarter ended March 31, 2022, gross profit increased by approximately $469,000, or 61.1%, to approximately $1.2 million compared to approximately $768,000 for the quarter ended March 31, 2021 primarily due to the continued shift to a more profitable product mix and further optimizing supply chain costs. For the quarter ended March 31, 2022, gross margin increased to 27.3% from 26.9% for the quarter ended March 31, 2021. This increase in gross margin was for the same reasons as noted above.

Selling and Marketing Expenses

Selling and marketing expenses for the quarter ended March 31, 2022 were approximately $1.1 million, an increase of approximately $482,000, or 72.9%, from approximately $661,000 for the quarter ended March 31, 2021. Selling and marketing expenses as a percentage of revenue increased to 25.3% in the quarter ended March 31, 2022 from 23.1% in the same period in 2021. This increase was primarily a result of marketing spend associated with our upcoming cannabis product launch. This increase is also associated with increased social and digital marketing expenditures incurred during the quarter in an effort to expand customer engagement. Lastly, there was an increase in non-cash stock compensation expense in the first quarter of 2022 primarily as a result of the accelerated vesting of the Company's outstanding stock options in connection with the closing of the Plan of Arrangement as described in note 5, which increased selling and marketing expenses by $91,000 in the current quarter compared to stock compensation expenses increasing selling and marketing expenses by $19,000 in the same quarter of 2021. We will continue to balance selling and marketing expenses with our working capital resources. For the three months ended March 31, 2022 and 2021, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $103,000 and $35,000, respectively.

General and Administrative Expenses

General and administrative expenses for the quarter ended March 31, 2022 were approximately $1.5 million, an increase of approximately $766,000, or 101.3%, compared to approximately $756,000 for the quarter ended March 31, 2021. General and administrative expenses as a percentage of revenue increased to 33.7% in the quarter ended March 31, 2022 from 26.5% in the same period in 2021. This increase in general and administrative expenses was primarily due to the administrative costs associated with our cannabis product launch. In addition, we experienced an increase in insurance premiums of approximately $1.0 million and there was an increase in non-cash stock compensation expense in the first quarter of 2022 primarily as a result of the accelerated vesting of the Company's outstanding stock options in connection with the closing of the Plan of Arrangement as described in note 5, which increased general and administrative expenses by $177,000 in the current quarter compared to stock compensation expenses increasing general and administrative expenses by $34,000 in the same quarter of 2021. We will continue to carefully manage general and administrative expenses with our working capital resources. For the three months ended March 31, 2022 and 2021, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $182,000 and $43,000, respectively.

Interest Income

We earned approximately $2,000 of interest income for the quarter ended March 31, 2022, compared to $1,000 for the quarter ended March 31, 2021.

Interest Expense

We incurred approximately $231,000 of interest expense for the quarter ended March 31, 2022, compared to approximately $60,000 for the quarter ended March 31, 2021. This increase was primarily related to the conversions of Convertible Notes that occurred during the three months ended March 31, 2022 that resulted in all capitalized costs associated with the issuance of these notes being fully expensed upon conversion. The interest expense incurred during the quarters ended March 31, 2022 and 2021 was non-cash.

Income Tax Expense

We incurred approximately $7,000 of income tax expense for each of the quarters ended March 31, 2022 and 2021, 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 quarter ended March 31, 2022 was approximately $1.7 million compared to net loss of approximately $719,000 for the quarter ended March 31, 2021. This increase was primarily due to the increase marketing and administrative costs associated with our cannabis product launch, the increase in interest expense, and the increase in stock compensation expense.

Liquidity and Capital Resources

As of March 31, 2022 and December 31 2021, we had cash and cash-equivalents of approximately $11.9 million and $4.7 million, respectively, and working capital of approximately $12.2 million and $6.0 million, respectively. Net cash used in operations during the three months ended March 31, 2022 and 2021 totaled approximately $2.3 million and $1.0 million, respectively. Net cash used in operations increased primarily due to the increase in inventory as of March 31, 2022 compared to December 31, 2021. Our cash flows vary throughout the year based on seasonality.

During the three months ended March 31, 2022, we issued $3,000,000 in Contingent Convertible Debentures (See note 4), that mature on February 9, 2023 and shall begin to accrue interest at a rate of 3.00% commencing on April 1, 2022 and such interest shall become payable on the maturity date of such Contingent Convertible Debentures.

Additionally, upon the consummation of the Plan of Arrangement (See note 5) the Company received $7.1 million in net 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 exchange for all of the outstanding Pinestar Shares on a one-for-one basis., 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 the three months ended March 31, 2022 and 2021, we received $0 and $9,000, 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 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 supply chain conditions, may reduce demand for certain products, and may negatively impact our business.

Critical Accounting Policies

See the information concerning our critical accounting policies included under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on March 14, 2022. There have been no material changes in our critical accounting policies during the three months ended March 31, 2022.