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.

Activity 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"). However, on June 6, 2022, due to market conditions each of the Company and SBBC agreed in writing to mutually terminate the LOI pursuant to Section 13(a) of the LOI. The Company did not incur any material early termination penalties as a result of the termination of the LOI.

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 June 30,				Six months ended June 30,			
	2022	% of Revenue	2021	% of Revenue	2022	% of Revenue	2021	% of Revenue
	(Dollars in thousands, except per share data)				(Dollars in thousands, except per share data)			
Consolidated statements of operations data:								
Revenue	$ 6,015	100.0 %	$ 4,458	100.0%	$ 10,538	100.0%	$ 7,315	100.0%
Cost of goods sold	(4,328)	(72.0)%	(3,064)	(68.7)%	(7,614)	(72.3)%	(5,153)	(70.4)%
Gross profit	1,687	28.0 %	1,394	31.3%	2,924	27.7%	2,162	29.6%
Selling and marketing expenses	(1,076)	(17.9)%	(710)	(15.9)%	(2,219)	(21.1)%	(1,371)	(18.7)%
General and administrative expenses	(1,882)	(31.3)%	(675)	(15.1)%	(3,404)	(32.3)%	(1,431)	(19.6)%
Income (loss) from operations	(1,271)	(21.1)%	9	0.2%	(2,699)	(25.6)%	(640)	(8.7)%
Interest income	2	0.0 %	1	0.0%	4	0.0%	2	0.0%
Interest expense	(146)	(2.4)%	(24)	(0.5)%	(377)	(3.6)%	(84)	(1.1)%
Other income (expense), net	(11)	(0.2)%	335	7.5%	(11)	(0.1)%	328	4.5%
Loss before income taxes	(1,426)	(23.7)%	321	7.2%	(3,083)	(29.3)%	(394)	(5.4)%
Income tax expense, net	(9)	(0.1)%	(12)	(0.3)%	(16)	(0.2)%	(16)	(0.2)%
Net income (loss)	$ (1,435)	(23.9)%	$ 309	6.9%	$ (3,099)	(29.4)%	$ (410)	(5.6)%
Basic and diluted net loss per share	$ (0.02)		$ -		$ (0.04)		$ (0.01)	

	As of	
	June 30, 2022	December 31, 2021
	(Dollars in thousands)	
Balance sheet data:		
Cash and cash equivalents and accounts receivable, net	$ 13,356	$ 7,329
Fixed assets, net	216	238
Total assets	17,667	10,246
Long-term liabilities	208	2,044
Working capital	$ 13,857	$ 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 June 30, 2022 Compared to Quarter Ended June 30, 2021

Revenue

For the quarter ended June 30, 2022, revenue increased by approximately $1.6 million, or 35%, to approximately $6.0 million compared to approximately $4.5 million for the quarter ended June 30, 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 June 30, 2022, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately $451,000, a decrease of approximately $3,000, or 0.7%, compared to approximately $454,000 for the quarter ended June 30, 2021, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the quarter ended June 30, 2022, gross profit increased by approximately $293,000, or 21%, to approximately $1.7 million compared to approximately $1.4 million for the quarter ended June 30, 2021 primarily due to increased revenue during the quarter. For the quarter ended June 30, 2022, gross margin decreased to 28% from 31.3% for the quarter ended June 30, 2021. This decrease was primarily driven by the impacts of inflation, mostly driven by increased material and freight costs, and the overall impacts of product mix.

Selling and Marketing Expenses

Selling and marketing expenses for the quarter ended June 30, 2022 were approximately $1.1 million, an increase of approximately $366,000, or 51.5%, from approximately $710,000 for the quarter ended June 30, 2021. Selling and marketing expenses as a percentage of revenue increased to 17.9% in the quarter ended June 30, 2022 from 15.9% in the same period in 2021. This increase was primarily a result of marketing spend associated with the cannabis product launch combined with increased social and digital marketing expenditures incurred during the quarter in an effort to expand customer engagement. We intend to continue to balance selling and marketing expenses with our working capital resources. For the three months ended June 30, 2022 and 2021, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $30,000 and $23,000, respectively.

General and Administrative Expenses

General and administrative expenses for the quarter ended June 30, 2022 were approximately $1.9 million, an increase of approximately $1.2 million, or 179%, compared to approximately $675,000 for the quarter ended June 30, 2021. General and administrative expenses as a percentage of revenue increased to 31.3% in the quarter ended June 30, 2022 from 15.1% in the same period in 2021. This increase in general and administrative expenses was primarily due to the start-up administrative costs associated with the cannabis product launch. We intend to continue to carefully manage general and administrative expenses with our working capital resources. For the three months ended June 30, 2022 and 2021, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $103,000 and $27,000, respectively.

Interest Income

We earned approximately $2,000 of interest income for the quarter ended June 30, 2022, compared to $1,000 for the quarter ended June 30, 2021.

Interest Expense

We incurred approximately $146,000 of interest expense for the quarter ended June 30, 2022, compared to approximately $24,000 for the quarter ended June 30, 2021. This increase was primarily related to the conversions of both the Contingent Convertible Debentures and the remaining Convertible Notes (each as defined in Note 4) that occurred during the three months ended June 30, 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 June 30, 2022 and 2021 was non-cash.

Income Tax Expense

We incurred approximately $9,000 of income tax expense during the quarter ended June 30, 2022 compared to $12,000 during the quarter ended June 30, 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 June 30, 2022 was approximately $1.4 million compared to net income of approximately $309,000 for the quarter ended June 30, 2021. This decrease in net income was primarily due to the increase marketing and administrative costs associated with our cannabis product launch and the increase in interest expense related to the conversions of both our Contingent Convertible Debentures and our remaining Convertible Notes during the second quarter of 2022. Additionally, during the quarter ended June 30, 2021 we experienced a large increase in other income due to our recognition of gain on debt forgiveness related to the full forgiveness of our $334,500 loan under the Paycheck Protection Plan (the "PPP Loan").

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenue

For the six months ended June 30, 2022, revenue increased by approximately $3.2 million, or 44.1%, to approximately $10.5 million compared to approximately $7.3 million for the six months ended June 30, 2021. This increase was primarily a result of increased DSD and DTR core bottled soda sales in the United States and Canada.

For the six months ended June 30, 2022, trade spend and promotion allowances, which offset revenue, totaled approximately $759,000, an increase of approximately $45,000, or 5.6%, compared to approximately $804,000 for the six months ended June 30, 2021, primarily due to the timing of incentive and retailer programs.

Gross Profit

For the six months ended June 30, 2022, gross profit increased by approximately $762,000, or 35.2%, to approximately $2.9 million compared to approximately $2.2 million for the six months ended June 30, 2021 due to higher revenues during the six months ended June 30, 2022. For the six months ended June 30, 2022, gross margin decreased to 27.7% from 29.6% for the six months ended June 30, 2021. This decrease was primarily driven by the impacts of inflation, mostly driven by increased material and freight costs, and the overall impacts of product mix.

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended June 30, 2022 were approximately $2.2 million, an increase of approximately $848,000, or 61.9%, from approximately $1.4 million for the six months ended June 30, 2021. Selling and marketing expenses as a percentage of revenue increased to 21.1% for the six months ended June 30, 2022 from 18.7% in the same period in 2021. This increase was primarily a result of marketing spend associated with the cannabis product launch combined with increased social and digital marketing expenditures incurred during the six months ended June 30, 2022 in an effort to expand customer engagement. We intend to continue to balance selling and marketing expenses with our working capital resources. For the six months ended June 30, 2022 and 2021, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately $134,000 and $58,000, respectively.

General and Administrative Expenses

General and administrative expenses for the six months ended June 30, 2022 were approximately $3.4 million, an increase of approximately $2.0 million, or 137.9%, compared to approximately $1.4 million for the six months ended June 30, 2021. General and administrative expenses as a percentage of revenue increased to 32.3% in the six months ended June 30, 2022 from 19.6% in the same period in 2021. This increase in general and administrative expenses was primarily due to the start-up administrative costs associated with the cannabis product launch. We intend to continue to carefully manage general and administrative expenses with our working capital resources. For the six months ended June 30, 2022 and 2021, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately $281,000 and $70,000, respectively.

Interest Income

We earned approximately $4,000 of interest income for the six months ended June 30, 2022, compared to $2,000 for the six months ended June 30, 2021.

Interest Expense

We incurred approximately $377,000 of interest expense for the six months ended June 30, 2022, compared to approximately $84,000 for the six months ended June 30, 2021. This increase was primarily related to the conversion of both the Contingent Convertible Debentures and the remaining Convertible Notes that occurred during the six months ended June 30, 2022 that resulted in a higher amortization of the closing costs associated with both the Convertible Debentures and the Convertible Notes. The interest expense incurred during the six months ended June 30, 2022 and 2021 was non-cash.

Income Tax Expense

We incurred approximately $16,000 of income tax expense in each of the six months ended June 30, 2022 and 2021, respectively, 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.

Other income (expense)

We incurred approximately $11,000 of other expense during the six months ended June 30, 2022 and $328,000 of other income during the six months ended June 30, 2021. This decrease in other income was primarily due to our recognition of gain on debt forgiveness related to the full forgiveness of our PPP Loan in the principal amount of $334,500 during the six months ended June 30, 2021.

Net loss

Net loss for the six months ended June 30, 2022 was approximately $3.1 million compared to net loss of approximately $410,000 for the six months ended June 30, 2021. This increase in net loss was primarily due to the increase marketing and administrative costs associated with our cannabis product launch and the increase in interest expense that occurred during the first six months of 2022. Additionally, during the six months ended June 30, 2021 we experienced a large increase in other income due to our recognition of gain on debt forgiveness related to the full forgiveness of our PPP Loan in the principal amount of $334,500.

Liquidity and Capital Resources

As of June 30, 2022 and December 31 2021, we had cash and cash-equivalents of approximately $9.3 million and $4.7 million, respectively, and working capital of approximately $13.9 million and $6.0 million, respectively. Net cash used in operations during the six months ended June 30, 2022 and 2021 totaled approximately $4.9 million and $1.6 million, respectively. Net cash used in operations increased primarily due to the increase in expenses related to expanding our business to include cannabis-containing beverages and related products as of June 30, 2022.

During the six months ended June 30, 2022, we issued $3,000,000 in Contingent Convertible Debentures (See note 4), that fully converted into 6,022,192 shares of common stock on May 16, 2022.

Additionally, upon the consummation of a statutory plan of arrangement under the Business Corporations Act (British Columbia) (the “Plan of Arrangement”) with Pinestar Gold Inc. (“Pinestar”) the Company received $7.1 million in net proceeds from a subscription receipt offering completed by Pinestar (the “Pinestar Subscription Receipt Offering”) prior to the Plan of Arrangement. The Plan of Arrangement resulted in issuance of an aggregate of 20,000,048 Jones Shares which were issued in exchange for all of the outstanding common shares of Pinestar (the “Pinestar Shares”), including the Pinestar Shares issued in connection with the Pinestar Subscription Receipt Offering, on a one-for-one basis.

During the three and six months ended June 30, 2022, we received $0 from the cash exercise of stock options. During the three and six months ended June 30, 2021, we received $58,000 and $67,000, 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.

As of the date of this Report, as a result of our cash on hand, we believe that our current cash and cash equivalents will be sufficient to meet the Company’s funding requirements for one year after these condensed consolidated financial statements are issued.

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 six months ended June 30, 2022.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. *CONTROLS AND PROCEDURES.*

(a) Evaluation of disclosure controls and procedures

We maintain disclosure controls and procedures (as such terms are defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to ensure that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, under the supervision and with the participation of our Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of June 30, 2022.

(b) Changes in internal controls

There were no changes in our internal controls over financial reporting during the three months ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.