

**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;
- 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

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 September 30,				Nine months ended September 30,			
	2022	% of Revenue	2021	% of Revenue	2022	% of Revenue	2021	% of Revenue
<b>Consolidated statements of operations data:</b>	<b>(Dollars in thousands, except per share data)</b>				<b>(Dollars in thousands, except per share data)</b>			
Revenue	\$ 4,806	100.0 %	\$ 4,565	100.0%	\$ 15,344	100.0%	\$ 11,880	100.0%
Cost of goods sold	(3,515)	(73.1)%	(3,102)	(68.0)%	(11,129)	(72.5)%	(8,255)	(69.5)%
Gross profit	1,291	26.9 %	1,463	32.0%	4,215	27.5%	3,625	30.5%
Selling and marketing expenses	(1,508)	(31.4)%	(733)	(16.1)%	(3,727)	(24.3)%	(2,104)	(17.7)%
General and administrative expenses	(1,476)	(30.7)%	(716)	(15.7)%	(4,880)	(31.8)%	(2,147)	(18.1)%
Income (loss) from operations	(1,693)	(35.2)%	14	0.3%	(4,392)	(28.6)%	(626)	(5.3)%
Interest income	1	0.0 %	1	0.0%	5	0.0%	3	0.0%
Interest expense	-	0.0 %	(76)	(1.7)%	(377)	(2.5)%	(160)	(1.3)%
Other income (expense), net	22	0.5 %	10	0.2%	11	0.1%	338	2.8%
Loss before income taxes	(1,670)	(34.7)%	(51)	(1.1)%	(4,753)	(31.0)%	(445)	(3.7)%
Income tax expense, net	(8)	(0.2)%	(8)	(0.2)%	(24)	(0.2)%	(24)	(0.2)%
Net income (loss)	\$ (1,678)	(34.9)%	\$ (59)	(1.3)%	\$ (4,777)	(31.1)%	\$ (469)	(3.9)%
Basic and diluted net loss per share	\$ (0.02)		\$ (0.00)		\$ (0.05)		\$ (0.01)	

	As of	
	September 30, 2022	December 31, 2021
<b>Balance sheet data:</b>	<b>(Dollars in thousands)</b>	
Cash and cash equivalents and accounts receivable, net	\$ 12,123	\$ 7,329
Fixed assets, net	208	238
Total assets	15,667	10,246
Long-term liabilities	-	2,044
Working capital	12,856	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 September 30, 2022 Compared to Quarter Ended September 30, 2021***

*Revenue*

For the quarter ended September 30, 2022, revenue increased by approximately \$241,000, or 5.3%, to approximately \$4.8 million compared to approximately \$4.6 million for the quarter ended September 30, 2021. This increase was primarily a result of increased DSD and DTR core bottled soda sales in the United States and Canada. Additionally, we began to generate revenue in the third quarter of 2022 from our line of “Mary Jones” cannabis products launched in 2022. In particular, we incurred a licensing revenue of \$114,000 from our Mary Jones products during the quarter ended September 30, 2022.

For the quarter ended September 30, 2022, trade spend and promotion allowances, which reduced the amount of revenue for the sales of our product, totaled approximately \$397,000, an increase of approximately \$20,000, or 5.3%, compared to approximately \$377,000 for the quarter ended September 30, 2021, primarily due to the timing of incentive and retailer programs.

*Gross Profit*

For the quarter ended September 30, 2022, gross profit decreased by approximately \$172,000, or 11.8%, to approximately \$1.3 million compared to approximately \$1.5 million for the quarter ended September 30, 2021. For the quarter ended September 30, 2022, gross margin decreased to 26.9% from 32% for the quarter ended September 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 September 30, 2022 were approximately \$1.5 million, an increase of approximately \$774,000, or 105.6%, from approximately \$733,000 for the quarter ended September 30, 2021. Selling and marketing expenses as a percentage of revenue increased to 32.1% in the quarter ended September 30, 2022 from 16.1% in the same period in 2021. This increase was primarily a result of non-cash stock consideration paid by the Company in connection with two sponsorship agreements entered into by the Company during the third quarter of 2022. Additionally, the increase in marketing expenses during the current quarter compared to the third quarter of 2021 can also be attributed to marketing expenses associated with the launch of the Company’s cannabis products in 2022 combined with increased social and digital marketing expenses 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 September 30, 2022 and 2021, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$547,000 and \$21,000, respectively. This increase in non-cash expenses is primarily attributable to the beforementioned non-cash stock consideration paid by the Company in connection with two sponsorship agreements.

*General and Administrative Expenses*

General and administrative expenses for the quarter ended September 30, 2022 were approximately \$1.5 million, an increase of approximately \$759,000, or 106%, compared to approximately \$716,000 for the quarter ended September 30, 2021. General and administrative expenses as a percentage of revenue increased to 31.4% in the quarter ended September 30, 2022 from 15.7% 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 September 30, 2022 and 2021, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$145,000 and \$27,000, respectively. The increase in non-cash expenses in the current quarter compared to the same quarter of 2021 was mostly driven by stock compensation granted to the members of the Board of Directors and members of Management during 2022.

*Interest Income*

We earned approximately \$1,000 of interest income for both quarters ended September 30, 2022 and 2021.

*Interest Expense*

We incurred no interest expense for the quarter ended September 30, 2022, compared to approximately \$76,000 for the quarter ended September 30, 2021, which was the result of the Contingent Convertible Debentures and Convertible Notes (each as defined in Note 4) that were outstanding and accruing interest during the three months ended September 30, 2021. Since all of the outstanding Contingent Convertible Debentures and Convertible Notes were either converted into shares of our common stock or matured pursuant to their terms prior to the start of the third quarter of 2022 and there was no other outstanding convertible debt at any time during the quarter ended September 30, 2022, the Company did not incur any accrued interest during the current quarter. The interest expense incurred during the quarters ended September 30, 2021 was non-cash.

*Income Tax Expense*

We incurred approximately \$8,000 of income tax expense during each of the quarters ended September 30, 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 September 30, 2022 was approximately \$1.7 million compared to net income of approximately \$59,000 for the quarter ended September 30, 2021. This decrease in net income was primarily due to the increased marketing and administrative costs associated with the launch of our cannabis products in 2022 and the non-cash stock consideration issued pursuant to the terms of two sponsorship agreements entered into by the Company during the third quarter of 2022.

***Nine Months Ended September 30, 2022 Compared to Nine Months Ended September 30, 2021***

*Revenue*

For the nine months ended September 30, 2022, revenue increased by approximately \$3.5 million, or 29.2%, to approximately \$15.3 million compared to approximately \$11.9 million for the nine months ended September 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 nine months ended September 30, 2022, trade spend and promotion allowances, which offset revenue, totaled approximately \$1.2 million for each of the nine months ended September 30, 2022 and 2021. Trade spend and promotion allowances fluctuate primarily due to the timing of incentive and retailer programs.

*Gross Profit*

For the nine months ended September 30, 2022, gross profit increased by approximately \$590,000, or 16.3%, to approximately \$4.2 million compared to approximately \$3.6 million for the nine months ended September 30, 2021 due to higher revenues during the nine months ended September 30, 2022. For the nine months ended September 30, 2022, gross margin decreased to 27.5% from 30.5% for the nine months ended September 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 nine months ended September 30, 2022 were approximately \$4.9 million, an increase of approximately \$2.7 million, or 127.2%, from approximately \$2.1 million for the nine months ended September 30, 2021. Selling and marketing expenses as a percentage of revenue increased to 24.5% for the nine months ended September 30, 2022 from 17.7% in the same period in 2021. This increase was primarily a result of non-cash stock consideration paid by the Company in connection with two sponsorship agreements entered into by the Company during the third quarter of 2022. Additionally, the increase in marketing expenses during the current period compared to the first nine months of 2021 can also be attributed to marketing expenses associated with the launch of the Company's cannabis products in 2022 combined with increased social and digital marketing expenses incurred during the 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 nine months ended September 30, 2022 and 2021, non-cash expenses included in selling and marketing expenses (stock compensation and depreciation) were approximately \$681,000 and \$80,000, respectively. This increase in non-cash expenses is primarily attributable to the beforementioned non-cash stock consideration paid by the Company in connection with two sponsorship agreements.

*General and Administrative Expenses*

General and administrative expenses for the nine months ended September 30, 2022 were approximately \$4.9 million, an increase of approximately \$2.7 million, or 127.2%, compared to approximately \$2.1 million for the nine months ended September 30, 2021. General and administrative expenses as a percentage of revenue increased to 32.0% in the nine months ended September 30, 2022 from 18.1% 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 nine months ended September 30, 2022 and 2021, non-cash expenses included in general and administrative expenses (stock compensation and depreciation) were approximately \$426,000 and \$97,000, respectively. The increase in non-cash expenses during 2022 compared to 2021 was mostly driven by stock compensation granted to the members of the Board of Directors and members of Management during 2022.

*Interest Income*

We earned approximately \$5,000 of interest income for the nine months ended September 30, 2022, compared to \$3,000 for the nine months ended September 30, 2021.

*Interest Expense*

We incurred approximately \$377,000 of interest expense for the nine months ended September 30, 2022, compared to approximately \$160,000 for the nine months ended September 30, 2021 which was the result of the Contingent Convertible Debentures and Convertible Notes (each as defined in Note 4) that were outstanding and accruing interest during the full nine months ended September 30, 2021. Since all of the outstanding Contingent Convertible Debentures and Convertible Notes were either converted into shares of our common stock or matured pursuant to their terms during the first half of 2022, the Company did not incur accrued interest during the entire nine month period ended September 30, 2022. The interest expense incurred during the quarters ended September 30, 2021 was non-cash.

*Income Tax Expense*

We incurred approximately \$24,000 of income tax expense in each of the nine months ended September 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 income during the nine months ended September 30, 2022 and \$338,000 of other income during the nine months ended September 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 \$334,500 loan under the Paycheck Protection Plan (the "PPP Loan") during the nine months ended September 30, 2021.

*Net loss*

Net loss for the nine months ended September 30, 2022 was approximately \$4.8 million compared to net loss of approximately \$469,000 for the nine months ended September 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 nine months of 2022. Additionally, during the nine months ended September 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 September 30, 2022 and December 31 2021, we had cash and cash-equivalents of approximately \$8.2 million and \$4.7 million, respectively, and working capital of approximately \$12.9 million and \$6.0 million, respectively. Net cash used in operations during the nine months ended September 30, 2022 and 2021 totaled approximately \$5.9 million and \$702,000, respectively. Net cash used in operations increased primarily due to the increase in expenses related to expanding our business to the production of cannabis-containing beverages and related products as of September 30, 2022.

During the nine months ended September 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 shares of the Company's common stock 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 nine months ended September 30, 2022, we received \$0 from the cash exercise of stock options. During the three and nine months ended September 30, 2021, we received \$228,000 and \$295,000, 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 nine months ended September 30, 2022.