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 consolidated balance sheets of Jones Soda Co. and its subsidiaries (the Company) as of December 31, 2022 and 2021, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for each of the two years ended December 31, 2022, and the related notes (collectively referred to as the consolidated financial statements).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Restatement of Previously Issued Consolidated Financial Statements

As discussed in Note 1 to the consolidated financial statements, the 2021 consolidated financial statements have been restated to correct misstatements.

Basis for Opinion

The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on the Company's consolidated financial statements. 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 audits 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 of the consolidated financial statements 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 consolidated 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 consolidated 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 financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a 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 they relate.

Promotional Allowances — Refer to Note 1 to the Consolidated Financial Statements

Critical Audit Matter Description

As described in Note 1 to the 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.

Significant judgment is exercised by the Company in determining the promotional allowances accrual, and includes the following:

- Determination of the completeness of the various promotional allowances with customers and the forecasted sales volume for the period.
- Assessing the estimate of promotional allowances that are expected to be redeemed subsequent to period end.

Given these factors, the related audit effort in evaluating management's judgments in determining promotional allowances for these customer agreements was extensive and required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our principal audit procedures related to the Company's promotional allowances for these customer agreements included the following:

- We selected a sample of promotional allowance claims and performed the following procedures:
  - Obtained tested the source documents for each selection, including promotional campaign and other documents that were part of the agreement to identify significant terms.
  - Traced a sample of promotional allowance claims to a listing of promotional campaigns during the period for completeness Assessed the terms in the promotional campaign and evaluated the appropriateness of management's application of their accounting policies, along with their use of estimates, in the determination of promotional allowance conclusions.
- We analyzed the customer base and historical promotional allowances offered to customers.
- We evaluated the reasonableness and accuracy of management's judgements and estimates used in accounting for promotional allowances. This included testing management's estimate of calculating expected claims based on historical data, comparing the estimate to revenue in the current period, current promotional offer redemptions to historical estimates, and comparing actual promotional allowances applied subsequent to December 31, 2022 to the promotional allowances as of December 31, 2022.

/s/ Armanino LLP

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

Bellevue, Washington
March 29, 2023

JONES SODA CO.

CONSOLIDATED BALANCE SHEETS

		December 31, 2022		December 31, 2021 As Restated
		(In thousands, except share data)		
ASSETS				
Current assets:				
Cash and cash equivalents	$	7,971	$	4,667
Accounts receivable, net of allowance of $110 and $114, respectively		3,170		2,662
Inventory		2,621		1,923
Prefunded insurance premiums - Financing		612		903
Prepaid expenses and other current assets		601		358
Total current assets		14,975		10,513
Fixed assets, net of accumulated depreciation of $309 and $627, respectively		127		238
Right-of-use lease asset		-		365
Other assets		-		33
Total assets	$	15,102	$	11,149
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	1,069	$	1,239
Accrued expenses		1,644		1,544
Insurance premium financing		612		903
Lease liability, current portion		-		109
Taxes payable		10		8
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
Total current liabilities		3,335		4,488
Net convertible subordinated notes payable, net of current portion		-		1,778
Lease liability, net of current portion		-		266
Total liabilities		3,335		6,532
Shareholders' equity:				
Common stock, no par value:				
Authorized — 800,000,000 issued and outstanding shares — 100,263,135 shares and 67,840,941 shares, respectively		89,680		76,017
Accumulated other comprehensive income		287		396
Accumulated deficit		(78,200)		(71,796)
Total shareholders' equity		11,767		4,617
Total liabilities and shareholders' equity	$	15,102	$	11,149

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2022	2021
	(In thousands, except share data)	
Revenue	$ 19,085	$ 14,792
Cost of goods sold	13,942	10,394
Gross profit	5,143	4,398
Operating expenses:		
Selling and marketing	4,965	3,003
General and administrative	6,271	3,302
Total operating expenses	11,236	6,305
Loss from operations	(6,093)	(1,907)
Interest income	6	4
Interest expense	(377)	(225)
Other income, net	88	344
Loss before income taxes	(6,376)	(1,784)
Income tax expense	(28)	(27)
Net loss	$ (6,404)	$ (1,811)
Net income (loss) per share - basic and diluted	$ (0.07)	$ (0.03)
Weighted average common shares outstanding - basic and diluted	94,177,863	65,542,609

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year ended December 31,	
	2022	2021
	(In thousands)	
Net loss	$ (6,404)	$ (1,811)
Other comprehensive loss:		
Foreign currency translation adjustment	(109)	(15)
Total comprehensive loss	$ (6,513)	$ (1,826)

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2022 and 2021
(In thousands, except share data)

	Common Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Number	Amount			
Balance as of December 31, 2020	61,975,748	$ 73,953	$ 411	$ (69,985)	$ 4,379
Stock-based compensation expense	-	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 income	-	-	(15)	-	(15)
Balance as of December 31, 2021	67,840,941	$ 76,017	$ 396	$ (71,796)	$ 4,617
Stock-based compensation expense	1,950,000	1,364	-	-	1,364
Common stock issued upon conversion of notes payable	10,472,146	5,147	-	-	5,147
Common stock and warrants issued, net of closing costs of $848	20,000,048	7,152	-	-	7,152
Net loss	-	-	-	(6,404)	(6,404)
Other comprehensive loss	-	-	(109)	-	(109)
Balance as of December 31, 2022	100,263,135	$ 89,680	$ 287	$ (78,200)	$ 11,767

See accompanying notes to consolidated financial statements.

JONES SODA CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2022	2021 As Restated
	(In thousands)	
OPERATING ACTIVITIES:		
Net loss	$ (6,404)	$ (1,811)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	414	166
Stock-based compensation	1,364	144
Change in allowance for doubtful accounts	(4)	21
Forgiveness of PPP SBA loan	-	(335)
Loss (gain) on sale of fixed asset	(31)	5
Gain on insurance claim	(23)	-
Changes in operating assets and liabilities:		
Accounts receivable	(542)	(1,129)
Inventory	(714)	(66)
Prefunded insurance premiums from financing	292	(903)
Prepaid expenses and other current assets	(243)	(164)
Other assets	35	-
Accounts payable	(167)	(147)
Accrued expenses	73	783
Taxes payable	3	1
Other liabilities	(10)	4
Net cash used in operating activities	(5,957)	(3,431)
INVESTING ACTIVITIES:		
Proceeds from insurance claim on property damage	31	-
Proceeds from sale of fixed assets	98	4
Purchase of fixed assets	(29)	(35)
Net cash from investing activities	100	(31)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	-	296
Proceeds from issuance of convertible notes, net	2,354	1,778
Proceeds from 2022 convertible notes prior to close, net	-	538
Repayments on Insurance financing, net of additional financing	(292)	-
Additional financing for insurance premiums, net of repayments	-	903
Proceeds from issuance of common stock and warrants, net	7,152	-
Net cash provided by financing activities	9,214	3,515
Net change in cash and cash equivalents	3,357	53
Effect of exchange rate changes on cash	(53)	-
Cash and cash equivalents, beginning of period	4,667	4,614
Cash and cash equivalents, end of period	$ 7,971	$ 4,667
Supplemental disclosure:		
Cash paid during period for:		
Interest	$ 47	-
Income taxes	23	$ 24
Supplemental disclosure of non-cash transactions:		
Conversion of notes payable	$ 5,147	$ 1,621
Beneficial conversion feature on convertible notes and accrued interest	-	4

See accompanying notes to consolidated financial statements.

JONES SODA CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2022 and 2021

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 (See note 7(d)), 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 have five subsidiaries, Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., Jones Soda Cannabis Inc., Mary Jones California, LLC, and Pinestar Gold 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, 2022 and 2021, we had cash and cash-equivalents of approximately $8.0 million and $4.7 million, respectively, and working capital of approximately $11.6 million and $6.0 million, respectively. Net cash used in operations during fiscal years 2022 and 2021 totaled approximately $6.0 million and $3.4 million, respectively. Net cash used in operations increased primarily due to the increase in net loss in 2022. Our cash flows vary throughout the year based on seasonality.

For the year ended December 31, 2022, net cash provided by financing activities totaled approximately $9.2 million due to the issuance of $3,000,000 in Contingent Convertible Debentures (See note 5), 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.

We incurred a net loss of approximately $6.4 million for the year ended December 31, 2022 compared to a net loss of approximately $1.8 million for the year ended December 31, 2021. Our accumulated deficit increased to $78.2 million as of December 31, 2022 compared to an accumulated deficit of $71.8 million as of December 31, 2021.

During 2022 and 2021, 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, 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.

As of the date of this Report, as a result of our cash on hand from the beforementioned financings, 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.

Restatement of Previously Issued Consolidated Financial Statements for Errors surrounding short-term financing

As part of preparing our consolidated financial statements as at and for the year ended December 31, 2022, an error was identified in the accounting for a short-term financing agreement that had an impact on the financial statements for the year ended December 31, 2021, which had been previously filed. Effective November 15, 2021, the Company entered into a one year financing agreement with IPFS Corporation (“IPFS”) to fund a portion of its insurance premiums in the amount of $903,000. Repayments were made quarterly on January 15, 2022, April 15, 2022, and July 15, 2022 under the terms of this financing agreement with IPFS, and the entirety of the financing was paid off in full on July 15, 2022. Since under the terms of the financing agreement with IPFS, IPFS funded a portion of our insurance premiums a prepaid asset was required to be recognized on our balance sheet for the year ended December 31, 2021, along with an associated liability or obligation to pay down this financing per the quarterly payment schedule noted above. The Company did not record this beforementioned asset or liability on the Company’s balance sheet as of December 31, 2021, which was previously filed with the SEC.

As a result of the identification of this error, we concluded that the previously issued consolidated financial statements as at and for the year ended December 31, 2021, were misstated. Accordingly, we have restated our consolidated financial statements as at and for the year ended December 31, 2021, to increase current assets and current liabilities by $903,000 on the balance sheet. Additionally, recorded the $903,000 change in prepaid asset in the operating activity portion on the statement of cash flows and the $903,000 liability in the financing activity portion of the statement of cash flows.

This error did not have any impact on our consolidated statement of operations, consolidated statements of comprehensive loss, or consolidated statement of shareholders' equity.

The impacts of this correction to fiscal year 2021 is as follows:

	As of December 31, 2021 (In thousands)		
Consolidated Balance Sheet:	As Reported	Restatement Adjustments	As Restated
Current assets:			
Cash and cash equivalents	$ 4,667	$ -	$ 4,667
Accounts receivable, net of allowance of $114	2,662	-	2,662
Inventory	1,923	-	1,923
Prefunded insurance premiums from financing	-	903	903
Prepaid expenses and other current assets	358	-	358
Total current assets	$ 9,610	$ 903	$ 10,513
Current liabilities:			
Accounts payable	1,239	-	1,239
Accrued expenses	1,544	-	1,544
Insurance Premium Financing	-	903	903
Lease liability, current portion	109	-	109
Taxes payable	8	-	8
Current portion of convertible subordinated notes payable, net	92	-	92
Current portion of accrued interest expense	55	-	55
2022 Financing Proceeds Received, Net of Closing Costs	538	-	538
Total current liabilities	$ 3,585	$ 903	$ 4,488

	Year Ended December 31, 2021 (In thousands)		
Consolidated Statement of Cash flows:	As Reported	Restatement Adjustments	As Restated
OPERATING ACTIVITIES:			
Net loss	$ (1,811)	$ -	$ (1,811)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	166	-	166
Stock-based compensation	144	-	144
Change in allowance for doubtful accounts	21	-	21
Forgiveness of PPP SBA loan	(335)	-	(335)
Loss (gain) on sale of fixed asset	5	-	5
Changes in operating assets and liabilities:			
Accounts receivable	(1,129)	-	(1,129)
Inventory	(66)	-	(66)
Prefunded insurance premiums from financing	-	(903)	(903)
Prepaid expenses and other current assets	(164)	-	(164)
Accounts payable	(147)	-	(147)
Accrued expenses	783	-	783
Taxes payable	1	-	1
Other liabilities	4	-	4
Net cash used in operating activities	(2,528)	(903)	(3,431)
FINANCING ACTIVITIES:			
Proceeds from exercise of stock options	$ 296	$ -	$ 296
Proceeds from issuance of convertible notes, net	1,778	-	1,778
Proceeds from 2022 convertible notes prior to close, net	538	-	538
Additional financing for insurance premiums, net of repayments	-	903	903
Net cash provided by financing activities	$ 2,612	$ 903	$ 3,515

The impacts of this correction for the quarter-ending March 31, 2022 is as follows:

Consolidated Balance Sheet:	As of March 31, 2022 (In thousands) As Reported	Restatement Adjustments	As Restated
Current assets:			
Cash and cash equivalents	$ 11,856	$ -	$ 11,856
Accounts receivable, net of allowance of $111	3,216	-	3,216
Inventory	2,907	-	2,907
Prefunded insurance premiums from financing	-	597	597
Prepaid expenses and other current assets	477	-	477
Total current assets	$ 18,456	$ 597	$ 19,053
Current liabilities:			
Accounts payable	1,735	-	1,735
Accrued expenses	1,526	-	1,526
Insurance Premium Financing	-	597	597
Lease liability, current portion	111	-	111
Taxes payable	9	-	9
Current portion of convertible subordinated notes payable, net	2,893	-	2,893
Total current liabilities	$ 6,274	$ 597	$ 6,871

Consolidated Statement of Cash flows:	Quarter Ended March 31, 2022 (In thousands) As Reported	Restatement Adjustments	As Restated
OPERATING ACTIVITIES:			
Net loss	$ (1,664)	$ -	$ (1,664)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	247	-	247
Stock-based compensation	268	-	268
Change in allowance for doubtful accounts	(3)	-	(3)
Changes in operating assets and liabilities:			
Accounts receivable	(545)	-	(545)
Inventory	(982)	-	(982)
Prefunded insurance premiums from financing	-	306	306
Prepaid expenses and other current assets	(119)	-	(119)
Other assets	25	-	25
Accounts payable	496	-	496
Accrued expenses	(66)	-	(66)
Taxes payable	1	-	1
Other liabilities	1	-	1
Net cash used in operating activities	$ (2,341)	$ 306	$ (2,035)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes, net	$ 2,354	$ -	$ 2,354
Repayments on Insurance financing, net of additional financing	-	(306)	(306)
Proceeds from issuance of common stock and warrants, net	7,152	-	7,152
Net cash provided by financing activities	$ 9,506	$ (306)	$ 9,200

The impacts of this correction for the six months ending June 30, 2022 is as follows:

	As of June 30, 2022 (In thousands)		
Consolidated Balance Sheet:	As Reported	Restatement Adjustments	As Restated
Current assets:			
Cash and cash equivalents	$ 9,285	$ -	$ 9,285
Accounts receivable, net of allowance of $119	4,071	-	4,071
Inventory	2,833	-	2,833
Prefunded insurance premiums from financing	-	289	289
Prepaid expenses and other current assets	944	-	944
Total current assets	$ 17,133	$ 289	$ 17,422
Current liabilities:			
Accounts payable	1,619	-	1,619
Accrued expenses	1,529	-	1,529
Insurance Premium Financing	-	289	289
Lease liability, current portion	114	-	114
Taxes payable	14	-	14
Total current liabilities	$ 3,276	$ 289	$ 3,565

	Six months Ended June 30, 2022 (In thousands)		
Consolidated Statement of Cash flows:	As Reported	Restatement Adjustments	As Restated
OPERATING ACTIVITIES:			
Net loss	$ (3,099)	$ -	$ (3,099)
Adjustments to reconcile net loss to net cash flows from operating activities:			
Depreciation and amortization	382	-	382
Stock-based compensation	386	-	386
Change in allowance for doubtful accounts	5	-	5
Changes in operating assets and liabilities:			
Accounts receivable	(1,428)	-	(1,428)
Inventory	(916)	-	(916)
Prefunded insurance premiums from financing	-	614	614
Prepaid expenses and other current assets	(585)	-	(585)
Other assets	25	-	25
Accounts payable	383	-	383
Accrued expenses	(43)	-	(43)
Taxes payable	6	-	6
Other liabilities	1	-	1
Net cash used in operating activities	$ (4,883)	$ 614	$ (4,269)
FINANCING ACTIVITIES:			
Proceeds from issuance of convertible notes, net	$ 2,354	$ -	$ 2,354
Repayments on Insurance financing, net of additional financing	-	(614)	(614)
Proceeds from issuance of common stock and warrants, net	7,152	-	7,152
Net cash provided by financing activities	$ 9,506	$ (614)	$ 8,892

The impacts of the restatement have been reflected throughout the financial statements, including the applicable footnotes, as appropriate.

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.

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 $110,000 and $114,000 as of December 31, 2022 and 2021, 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):

	2022	2021
Balance, beginning of year	$ 114	$ 93
Net charges to bad debt expense	(5)	42
Recoveries (write-offs)	1	(21)
Balance, end of year	$ 110	$ 114

As of December 31, 2022, two customers made up 22% of our outstanding accounts receivable. As of December 31, 2021, one customer made up 19% 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 $156,000 and $27,000 for the years ended December 31, 2022 and 2021, 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 loss was $7,000 for 2022 and a net transaction gain of $18,000 occurred in 2021.

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. 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. 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 $163,000 and $120,000 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021, our revenue was reduced by approximately $1.6 million and $1.4 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, 2022 and 2021, we incurred advertising costs of $1.0 million and $731,000, 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, 2022 or 2021.

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 2022 and 2021, outstanding stock options amounting to 3,369,332 and 3,405,511 shares, outstanding warrants of 27,721,945 and 0, and shares issuable upon the conversion of the 2018 Convertible Notes of 0 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

No new accounting pronouncements issued or effective during 2022 had, or are expected to have, a material impact on the Company's consolidated financial statements.

2. Inventory

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

	December 31, 2022	December 31, 2021
Finished goods	$ 1,234	$ 1,361
Raw materials	1,387	562
	$ 2,621	$ 1,923

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, net

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

	2022	2021
Vehicles	$ 37	$ 496
Equipment	210	210
Office and computer equipment	189	159
	436	865
Accumulated depreciation	(309)	(627)
	$ 127	$ 238

Depreciation expense was $66,000 and $93,000, for the years ended December 31, 2022 and 2021, respectively. Depreciation expense is primarily associated with the Company's equipment and vehicles. The company recorded a gain on disposal of fixed assets of $54,000 during the year ended December 31, 2022. The company recorded a loss on disposal of fixed assets of $5,000 during the year ended December 31, 2022.

4. Accrued Expenses

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

	2022	2021
Employee benefits	$ 604	$ 405
Selling and marketing	465	354
Other accruals	575	785
	$ 1,644	$ 1,544

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 had 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 could 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 was 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 were due until the maturity.

The 2018 Convertible Notes were 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.

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 were amortized through interest expense over the term of the 2018 Convertible Notes. As of April 18, 2022 all convertible notes have been converted into shares and the current balance of the 2018 Convertible Subordinated Note Payable as of September 30, 2022 is $0.

2021 Unsecured Convertible Debenture

On July 14, 2021, we issued a $2,000,000 5.00% unsecured convertible debenture due July 14, 2023 *(*the “2021 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 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, which was 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 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. As a result, the carrying amount of the converted principal amount of such 2021 Unsecured Convertible Debenture, in an aggregate amount of $2,000,000, was credited to common stock.

2022 Unsecured Convertible Debenture

On February 9, 2022, we issued $3,000,000 in aggregate principal amount of 3.00% unsecured convertible debentures due February 9, 2023 *(*the “Contingent Convertible Debentures”), which were converted into Jones Units of Jones at a conversion price of $0.50 per Jones Unit on May 16, 2022. The Contingent Convertible Debentures were 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 were only convertible into Jones Units upon the occurrence of a Conversion Event. The Contingent Convertible Debentures were set to mature on February 9, 2023 *(*the “Convertible Debenture Maturity Date”) and began accruing interest at a rate of 3.00% commencing on April 1, 2022. Under the terms of the Contingent Convertible Debentures, 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. We received net proceeds of $538,000 prior to December 31, 2021 and the remaining of the total $3,000,000 during the quarter ended March 31, 2022. The related closing costs amounting to $108,000 were amortized through interest expense over the term of the Contingent Convertible Debentures. On May 16, 2022 all Contingent Convertible Debentures were converted into common stock, and the remaining unamortized capitalized closing costs were expensed, and the current balance of the Contingent Convertible Debentures as of September 30, 2022 was $0.

6. Lease Obligations

During the year ended December 31, 2022 we terminated our lease of 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%. Due to the termination, we derecognized the Right-of-Use asset and total lease liabilities of $310,000 and $322,000, respectively from our consolidated balance sheet. The remaining difference of $12,000 was recorded as Other Income. Additionally, we incurred a net termination fee of $41,000 upon execution of the termination agreement.

On September 1, 2022 we entered into a membership/licensing agreement with Saltbox Inc. This agreement gives us right to our portion of a shared office (“Suite”) and warehouse facility in Seattle, WA. The structure of the agreement is a revocable license to access the suite and warehouse. The relationship between Saltbox Inc. and Jones Soda is that of a licensor and licensee only, and not a landlord-tenant or lessor-lessee relationship. The agreement does not give right, title, interest, easement, or lien in or to Saltbox Inc’s business, the Suite, the Premises, or anything contained therein, nor will the Agreement be interpreted or construed as a lease. Thus, we will not be recording a lease liability or right-of-use asset associated with this agreement. The term of the agreement is for 1 year with an option to renew and 12 monthly payments of $6,000 payable each month.

During the year ended December 31, 2022 and 2021, we incurred rental expenses on the previous lease of $109,000 and $122,000, respectively. During the year ended December 31, 2022, we incurred licensing expenses for right to our suite and warehouse of $29,000.

7. Shareholders’ Equity

On May 16, 2022, our shareholders approved the adoption of the Jones Soda Co. 2022 Omnibus Equity Incentive Plan (the ″2022 Plan"), which replaced the 2011 Plan (defined below) and provides for the granting incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock, restricted stock units and other stock-based awards to participants to acquire shares of Company common stock under the 2022 Plan. Under the terms of the 2022 Plan, the sum of (i) 10,000,000 shares of the Company’s common stock, plus (ii) the number of shares of common stock reserved, but unissued under the 2011 Plan, plus (iii) the number of shares of common stock underlying forfeited awards under the 2011 Plan are initially available for issuance as awards under the 2022 Plan.

1,936,074 shares of common stock reserved under the terms of our 2011 Incentive Plan (the “2011 Plan”) but unissued were transferred to the reserve for the 2022 Plan. Thus, the total number of shares of common stock authorized under the Plan was 11,936,074 shares.

Under the terms of the 2022 Plan, the Board may grant awards to employees, officers, directors, consultants, agents, advisors and independent contractors. Stock options are granted with an exercise price equal to the closing price of our stock on the date of grant, and generally have a ten-year term. As of December 31, 2022, there were 11,663,574 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, 2022	3,405,511	$ 0.38
Options granted	828,148	0.51
Options forfeited/expired	(864,327)	0.41
Balance at December 31, 2022	3,369,332	$ 0.41
Exercisable, December 31, 2022	2,460,674	$ 0.34
Vested and expected to vest	3,116,129	$ 0.40

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price (Per Share)
Balance at January 1, 2021	3,589,783	$ 0.36
Options granted	1,423,450	0.49
Options exercised	(797,306)	0.37
Options forfeited/expired	(810,416)	0.48
Balance at December 31, 2021	3,405,511	$ 0.38
Exercisable, December 31, 2021	1,616,439	$ 0.34
Vested and expected to vest	2,808,039	$ 0.37

The following table summarizes information about stock options outstanding and exercisable under our stock incentive plans at December 31, 2022:

			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	2,835,258	7.13	$ 0.34	2,240,258	6.55	$ 0.31
$0.51	to	$1.09	529,074	8.65	0.78	215,416	8.26	0.73
$1.10	to	$2.99	5,000	8.59	1.33	5,000	8.59	1.33
			3,369,332	7.37	0.41	2,460,674	6.70	0.34

(b) Restricted stock awards:

Beginning on May 13, 2022 the Company's board of directors (the "Board") determined that it was in the best interests of the Company to periodically award restricted stock units as equity compensation for non-employee directors upon the recommendation of the Compensation and Governance Committee of the Board in lieu of stock options. Each restricted stock unit granted vests incrementally over the period in the specific award agreement, and certain restricted stock awards will immediately vest upon the occurrence of a "Change in Control" as defined in the 2022 Plan. For the period from January 1, 2020 through February 15, 2022, equity compensation for non-employee director service consisted of the grant of an annual non-qualified stock option award that vested 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 being determined by dividing $25,000 by the closing share price (as quoted on the OTCQB marketplace) on the date of grant (which was the first trading day in January in each calendar year), and such stock option award had an exercise price equal to our closing share price (as quoted on the OTCQB marketplace) on the date of grant. Prior to February 15, 2022, when joining the Board, each non-employee director was previously granted a non-qualified stock option award that vested 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 being 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 had an exercise price equal to our closing share price (as quoted on the OTCQB marketplace) on the date of grant. The stock option and restricted stock unit awards described above are governed by either the 2022 Plan or the 2011 Plan (if granted prior to the adoption of the 2022 Plan) and standard form of stock option grant notice and agreement and standard form of restricted stock unit grant notice and agreement.

On December 30, 2022, the Company entered into rescission agreements (the "Rescission Agreements") with the certain non-employee directors on the Board who were awarded restricted stock units during 2022 as well as the Company's Chief Executive Officer and President who received restricted stock units during 2022 under the terms of his employment agreement with the Company. Under the terms of the Rescission Agreements, each of the Company and the applicable RSU grantee agreed to rescind and cancel for no consideration all currently outstanding restricted stock units previously granted to each such grantee during 2022 as well as all shares of the Company's common stock previously issued to any such grantee as a result of the vesting of any restricted stock units in August 2022.

There was no restricted stock activity during 2021. A summary of our 2022 restricted stock activity is as follows:

	Restricted Shares	Weighted-Average Grant Date Fair Value per share	Weighted-Average Contractual Life (years)
Non-vested restricted stock at January 1, 2022	-	$ -	-
Granted	4,920,000	0.20	-
Vested	(70,000)	0.22	
Cancelled/expired/rescinded	(4,850,000)	0.20	
Non-vested restricted stock at December 31, 2022	-	$ -	-

(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, 2022, we had unrecognized compensation expense related to stock options and non-vested stock of $212,000 to be recognized over a weighted-average period of 2.7 years.

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

	Year Ended December 31, 2022	Year Ended December 31, 2021
Stock options	$ 353	$ 162
Pinestar warrants (defined below)	76	-
Restricted stock	935	12
	$ 1,364	$ 174
Income statement account:		
Selling and marketing	$ 843	$ 65
General and administrative	521	109
	$ 1,364	$ 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, 2022	Year Ended December 31, 2021
Expected dividend yield	—	—
Expected stock price volatility	79.3%	74.7%
Risk-free interest rate	2.2%	0.9%
Expected term (in years)	6.0	5.8
Weighted-average grant date fair-value	$ 0.35	$ 0.32

During the year ended December 31, 2022, no material modifications were made to outstanding stock options.

The aggregate intrinsic value of stock options outstanding at December 31, 2022 and 2021 was $77,000 and $1.3 million, respectively and for options exercisable was $77,000 and $690,000, 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, 2022 and 2021 was zero and $435,000, respectively. During the years ended December 31, 2022 and 2021, there were zero and 797,306 options exercised, respectively. The Company's policy is to issue new shares upon exercise of options.

(d) Closing of the Pinestar Gold Inc. - Plan of Arrangement:

On February 15, 2022, Jones issued an aggregate of 20,000,048 Jones Shares in connection with the completion of 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 the Pinestar Subscription Receipt Offering for aggregate net proceeds of $7,152,000, at a price per subscription receipt equal to $0.50. As part of the closing of the Plan of Arrangement, each such 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 issued in the Pinestar Subscription Receipt Offering) 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 following table summarizes the Company's outstanding warrants as of December 31, 2022:

	Number Outstanding	Remaining Contractual Life (Years)	Exercise Price Per Share	Number Exercisable
Jones Special Warrants (1)	26,047,137	1.20	$ 0.63 USD	26,047,137
Pinestar Warrants (2)	1,674,808	1.25	0.06 CAD	1,674,808
Outstanding Warrants as of December 31, 2022	27,721,945			27,721,945

(1) Upon conversion of the beforementioned 2021 Unsecured Convertible Debenture, 4,025,035 Jones Special Warrants were issued. In connection with the beforementioned Plan of Arrangement, Pinestar completed an offering for Subscription Receipts for aggregate gross proceeds of $8,000,000. Pursuant to the Plan of Arrangement, each Subscription Receipt automatically converted into 16,000,000 Jones Special Warrants. Lastly, Upon conversion of the beforementioned 2022 Unsecured Convertible Debenture, 6,022,102 Jones Special Warrants were issued.

(2) In connection with the beforementioned Plan of Arrangement, Pinestar, Pinestar had outstanding 16,800,000 existing common share purchase warrants and as a result of the consolidation, and the number of Pinestar Shares issuable pursuant to the Pinestar warrants as adjusted in accordance with their terms to account for the consolidation (10.031 pre consolidation shares to 1 post consolidation), resulting in an aggregate of approximately 1,674,808 post-consolidated Pinestar warrants, subject to rounding, each exercisable for the purchase of one post-consolidation Pinestar Share at a price of $0.06 CAD per share. 600,000 warrants were transferred to two Board of Director members for 2022 services, thus resulting in $76,000 in stock compensation expense incurred during the year ended December 31, 2022.

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, 2022 and 2021. We did accrue and fund our employees' 401(k) accounts in 2023 for matching contributions related to 2022 in the amount of $42,000.

9. Commitments and Contingencies

Commitments

As of December 31, 2022, we continue to have commitments to various suppliers of raw materials. Purchase obligations under these commitments are expected to total $1.5 million in 2023.

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):

	2022	2021
Current		
State	$ 7	$ 4
Foreign	21	23
Provision for income taxes	$ 28	$ 27

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

	2022	2021
United States	$ (6,469)	$ (1,881)
Foreign	93	97
Total	$ (6,376)	$ (1,784)

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

	2022	2021
Federal statutory rate	21.00%	21.00%
Effect of:		
Permanent differences	(1.17)	3.84
Stock Compensation	(0.85)	0.11
State income taxes, net of federal benefit	0.77	3.10
Change in valuation allowance	(16.20)	(10.27)
Other, net	(3.99)	(19.30)
Provision for income taxes	(0.44)%	(1.51)%

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):

	2022	2021
Federal and state net operating loss carryforwards	$ 15,765	$ 14,896
Stock-based compensation	212	125
Other, net	205	157
Total deferred tax asset	16,182	15,178
Valuation allowance	(16,182)	(15,178
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, 2022 and December 31, 2021, the valuation allowance increased by $1.0 million, and $185,000, 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, 2022, we had net operating loss carryforwards for federal and state income tax purposes of $54.9 million, and $19.5 respectively, which expire at various times commencing 2023. We also had net operating loss carryforwards for federal and state income tax purposes of $14.8 million, and $0.3 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, 2022 and 2021.

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 related to the CARES Act for the years ended December 31, 2022 and 2021.

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,	
	2022	2021
Revenue:		
United States	$ 15,313	$ 11,385
Canada	3,609	3,240
Other countries	163	167
Total revenue	$ 19,085	$ 14,792

During the year ended December 31, 2022, one of our customers represented approximately 17% of our revenues and during the year ended December 31, 2021 one of our customers represented approximately 21% of revenues.

12. Insurance Premium Financing

Restatement of Previously Issued Consolidated Financial Statements for Errors surrounding short-term financing

Prior year amounts have been restated to reflect the correction of the error discussed in Note 1, "Nature of Operations and Summary of Significant Accounting Policies."

Effective November 15, 2021, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of $903,000. Repayments are made quarterly on January 15, 2022, April 15, 2022, and by July 15, 2022, the entirety of the financing is paid off in full. The interest rate is 4.75% and there are no covenants associated with this agreement.

Effective November 15, 2022, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of $612,000. Repayments are made quarterly on January 15, 2023, April 15, 2023, and by July 15, 2023, the entirety of the financing is paid off in full. The interest rate is 6.99% and there are no covenants associated with this agreement.

13. Related party Transactions

On January 6, 2022 we executed a contract with Julianna Pena for Sponsorship services in which we paid Ms. Pena $100,000 during 2022 along with a 10% Royalty for the sale of the Julianna Pena "Crushed Melon" product. Julianna Pena is considered a related party of the Company due to the direct interest of Ms. Pena's current Manger, a member of our Board Members, Chad Bronstein. Pursuant to the beforementioned contract with Julianna Pena, we paid Ms. Pena approximately $136,000 during the year ended December 31, 2022. For the year ended December 31, 2021, except as set forth herein, we were not a party to any transactions in which the amount involved in the transaction in which was material.

On February 9, 2022, current director Chad Bronstein and former director Alexander Spiro purchased, prior to becoming directors on our Board of Directors, an aggregate principal amount of $100,000 and $400,000, respectively, of 3.00% unsecured convertible debentures ("Contingent Convertible Debentures") of the Company, which were convertible into units of our Company at a conversion price of $0.50 per unit, with each unit consisting of one share of our common stock and one share purchase special warrant of our Company ("Jones Special Warrant"). Each Jones Special Warrant will be exercisable into one share of our common stock at a price of $0.625 per share for a period of 24 months from the date of issuance. The Contingent Convertible Debentures were automatically convertible into our units upon us increasing our authorized capital in May of 2022.

Jamie Colbourne, a director and the former Chairman of our Board of Directors and former Interim Chief Financial Officer, Mark Murray, our President and Chief Executive Officer and a member our Board of Directors, former director Jeffrey Anderson, current director Clive Sirkin and current Chairman of the Board Paul Norman, each acquired $200,000 in subscription receipts in Pinestar Gold Inc., and consequently each of these related persons acquired 400,000 shares of our common stock and 400,000 Jones Special Warrants (exercisable into shares of our common stock at an exercise price of $0.625 per share) in connection with the closing of the plan of arrangement under the Business Corporations Act (British Columbia) on February 15, 2022. The issuance of our shares of common stock and the Jones Special Warrants to these related parties was approved by the Company's Audit Committee.

Additionally, during the year ended December 31, 2022, 400,000 and 200,000 Pinestar Warrants, as described in Note 7 were transferred to Jamie Colbourne and Paul Norman, respectively.