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

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

We have restated our financial statements for 2021 due to the correction of an error in the accounting for a financing agreement as discussed in Note 1, "Nature of Operations and Summary of Significant Accounting Policies." Accordingly, the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below reflects the effects of the restatements on our balance sheet and statement of cash flow figures.

Overview

We develop, produce, market and distribute premium beverages that we sell and distribute primarily in North America through our network of independent distributors and directly to our national and regional retail accounts. We also sell premium soda beverage products in select international markets and sell cannabis infused beverages and syrups in California. Our premium soda beverage products are sold primarily in grocery stores, convenience and gas stores, on fountain in restaurants, "up and down the street" in independent accounts such as delicatessens, sandwich shops and burger restaurants, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery ("DSD") channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail ("DTR") channel. We do not directly manufacture any of our premium soda beverage products, but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various premium beverage soda products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers. In addition, we currently market and sell several cannabis infused beverages and syrups in California through third party manufacturers and distributors. We plan to expand our cannabis product offerings and the states in which we offer such products.

Our Focus: Sales Growth

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

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

Results of Operations

Years Ended December 31, 2022 and 2021

Revenue

For the year ended December 31, 2022, revenue was approximately $19.1 million, an increase of $4.3 million, or 29.0%, from approximately $14.8 million in revenue for the year ended December 31, 2021. This increase was primarily a result of increased core bottled soda sales in the United States and Canada. Additionally, sales revenues from our fountain business were $2.0 million during 2022 compared to $1.5 million during 2021, mostly as a result of increased sales in the food service channel. We also received an aggregate of $353,000 in sales revenues from our cannabis infused beverages and syrups sold during 2022. For the year ended December 31, 2022, promotion allowances and slotting fees, which offset revenue, totaled approximately $1.6 million, an increase of approximately $121,000, or 8.4%, from approximately $1.5 million in 2021.

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During 2022 and 2021, the percentage of our revenues generated in Canada was 19% and 22%, respectively.

Gross Profit

	Year Ended December 31,		
	2022	2021	% Change
		(Dollars in thousands)	
Gross Profit	$ 5,143	$ 4,398	16.9%
% of Revenue	26.9%	29.7%	

For the year ended December 31, 2022, gross profit increased by $745,000, or 16.9%, to approximately $5.1 million compared to approximately $4.4 million for the year ended December 31, 2021, driven primarily by higher revenue during the year ended December 31, 2022 as compared to the year ended December 31, 2021. For the year ended December 31, 2022, gross margin decreased to 26.9% from 29.7% for the year ended December 31, 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 year ended December 31, 2022 were approximately $5.0 million, an increase of $2.0 million, or 65.3%, from approximately $3.0 million for the year ended December 31, 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 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 year in an effort to expand customer engagement.. As revenue continues to increase, we expect that selling and marketing expenses will increase to support this growth. Selling and marketing expenses as a percentage of revenue increased to 26.0% for the year ended December 31, 2022 from 20.3% in 2021. We will continue to work on balancing selling and marketing expenses with our working capital resources.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2022 were approximately $6.3 million, an increase of $3.0 million, or 89.9%, compared to approximately $3.3 million for the year ended December 31, 2021. This increase in general and administrative expenses was primarily due to the start-up administrative costs associated with the cannabis product launch. General and administrative expenses as a percentage of revenue increased to 32.9% for the year ended December 31, 2022 from 22.3% in 2021. We will continue work on balancing general and administrative expenses with our working capital resources.

Interest Expense

We incurred approximately $377,000 of interest expense for the year ended December 31, 2022, compared to approximately $225,000 for the year ended December 31, 2021 which was the result of the Contingent Convertible Debentures and Convertible Notes (each as defined in Note 5) that were outstanding and accruing interest during the year ended December 31, 2021. Since all of the outstanding Continent 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 since the second quarter of 2022. The interest expense incurred during the years ended December 31, 2022 and December 31, 2021 was non-cash.

Interest Income

We earned approximately $6,000 of interest income for the year ended December 31, 2022, compared to $4,000 for the year ended December 31, 2021.

Income Tax Expense

We had income tax expense of $28,000 and $27,000 for the years ended December 31, 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.

Net Loss

Net loss for the year ended December 31, 2022 increased to approximately $6.4 million from a net loss of $1.8 million for the year ended December 31, 2021. The increase in net loss was primarily due to the increase marketing and administrative costs associated with the launch of our cannabis infused beverage and syrups in 2022 and the beforementioned 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.

Liquidity and Capital Resources

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, the uncertain market conditions may limit our ability to access capital, may reduce demand for certain products, and may negatively impact our supply chain. Although we believe various debt and equity financing alternatives will be available to us to support our working capital needs, financing arrangements on acceptable terms may not be available to us when needed. Moreover, these alternatives may require significant cash payments for interest and other costs or could be highly dilutive to our existing shareholders. Any such financing alternatives may not provide us with sufficient funds to meet our long-term capital requirements. If necessary, we may explore strategic transactions that we consider to be in the best interest of our company and our shareholders, which may include, without limitation, public or private offerings of debt or equity securities, a rights offering, and other strategic alternatives; however, these options may not ultimately be available or feasible when needed.

Seasonality

Our sales are seasonal and we experience fluctuations in quarterly results as a result of many factors. We historically have generated a greater percentage of our revenues during the warm weather months of April through September. Sales may fluctuate materially on a quarter-to-quarter basis or an annual basis when we launch a new product or fill the “pipeline” of a new distribution partner or a large retail partner. Sales results may also fluctuate based on the number of stock keeping units ("SKUs") selected or removed by our distributors and retail partners through the normal course of serving consumers in the dynamic, trend-oriented beverage industry. As a result, management believes that period-to-period comparisons of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance or results expected for the fiscal year.

Critical Accounting Policies

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

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

Revenue Recognition

We recognize revenue under Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606"). The core principle of the revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We only apply the five-step model (as described in Note 1 to the Consolidated Financial Statements of this Report) to contracts when it is probable that we will collect the consideration it is entitled to in exchange for the goods and services transferred to the customer.

Inventory

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

Trade Spend and Promotion Expenses

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

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

Not applicable.