

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Jones Soda Co.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Jones Soda Co. and its subsidiaries (“the Company”) as of December 31, 2023 and the related consolidated statements of operations, comprehensive loss, shareholders’ equity, and cash flows for the year then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit 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 audit, 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 audit 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 audit 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 audit provides a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters 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 consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Promotional Allowances:

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.

The primary procedures we performed to address this critical audit matter included the following:

- We selected a sample of promotional allowance claims and performed the following procedures:
 - Obtained and 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, comparing current promotional offer redemptions to historical estimates, and comparing actual promotional allowances applied subsequent to December 31, 2023 to the promotional allowances as of December 31, 2023.

/s/ Berkowitz Pollack Brant Advisors + CPAs, LLP (PCAOB ID: 52)

We have served as the Company's auditor since 2023.

Miami, FL
April 1, 2024

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Jones Soda Co.

Seattle, Washington

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Jones Soda Co. and its subsidiaries (the "Company") as of December 31, 2022, and the related consolidated statements of operations, comprehensive loss, shareholders' equity, and cash flows for the year 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 the results of their operations and their cash flows for the year ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit 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 audit 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. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

/s/ ArmaninoLLP

San Ramon, California

March 29, 2023

We began serving as the Company's auditors in 2021. In 2023, we became the predecessor auditor.

JONES SODA CO.
CONSOLIDATED BALANCE SHEETS

ASSETS	<u>December 31, 2023</u>	<u>December 31, 2022</u>
	(In thousands, except share data)	
Current assets:		
Cash and cash equivalents	\$ 3,867	\$ 7,971
Accounts receivable, net of allowance of \$260 and \$110, respectively	2,118	3,170
Inventory	2,392	2,621
Prefunded insurance premiums from financing	357	612
Prepaid expenses and other current assets	861	601
Total current assets	<u>9,595</u>	<u>14,975</u>
Other assets		
Fixed assets, net of accumulated depreciation of \$366 and \$309, respectively	174	-
	<u>137</u>	<u>127</u>
Total assets	<u>\$ 9,906</u>	<u>\$ 15,102</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 716	\$ 1,069
Accrued expenses	1,283	1,644
Insurance premium financing	357	612
Taxes payable	-	10
Total current liabilities	<u>2,356</u>	<u>3,335</u>
Total liabilities	<u>2,356</u>	<u>3,335</u>
Shareholders' equity:		
Common stock, no par value:		
Authorized — 800,000,000 issued and outstanding shares — 101,258,135 shares and 100,263,135 shares, respectively	90,273	89,680
Accumulated other comprehensive income	331	287
Accumulated deficit	<u>(83,054)</u>	<u>(78,200)</u>
Total shareholders' equity	<u>7,550</u>	<u>11,767</u>
Total liabilities and shareholders' equity	<u>\$ 9,906</u>	<u>\$ 15,102</u>

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2023	2022
	(In thousands, except share data)	
Revenue	\$ 16,669	\$ 19,085
Cost of goods sold	11,814	13,942
Gross profit	4,855	5,143
Operating expenses:		
Selling and marketing	4,378	4,965
General and administrative	5,355	6,271
Total operating expenses	9,733	11,236
Loss from operations	(4,878)	(6,093)
Interest income	52	6
Interest expense	-	(377)
Other income (expense), net	5	88
Loss before income taxes	(4,821)	(6,376)
Income tax expense, net	(33)	(28)
Net loss	\$ (4,854)	\$ (6,404)
Net loss per share - basic and diluted	\$ (0.05)	\$ (0.07)
Weighted average common shares outstanding - basic and diluted	100,922,834	94,177,863

See accompanying notes to consolidated financial statements.

JONES SODA CO.**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

	Year Ended December 31,	
	2023	2022
	(In thousands)	
Net loss	\$ (4,854)	\$ (6,404)
Other comprehensive income (loss):		
Foreign currency translation adjustment	44	(109)
Total comprehensive loss	<u>\$ (4,810)</u>	<u>\$ (6,513)</u>

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
 Years Ended December 31, 2023 and 2022
 (In thousands, except share data)

	Common Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Number	Amount			
	(In thousands, except share data)				
Balance as of December 31, 2021	67,840,941	\$ 76,017	\$ 396	\$ (71,796)	\$ 4,617
Stock-based compensation	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
Stock-based compensation	1,275,000	694	-	-	694
Shares withheld for taxes upon RSU vesting	(480,000)	(110)	-	-	(110)
Exercise of Pinestar Warrants	200,000	9	-	-	9
Net loss	-	-	-	(4,854)	(4,854)
Other comprehensive gain	-	-	44	-	44
Balance as of December 31, 2023	101,258,135	\$ 90,273	\$ 331	\$ (83,054)	\$ 7,550

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2023	2022
(In thousands)		
OPERATING ACTIVITIES:		
Net loss	\$ (4,854)	\$ (6,404)
Adjustments to reconcile net loss to net cash flows used in operating activities:		
Depreciation and amortization	63	414
Stock-based compensation	694	1,364
Change in allowance for credit losses	150	(4)
Gain on sale of fixed asset		(31)
Gain on insurance claim	-	(23)
Changes in operating assets and liabilities:		
Accounts receivable	906	(542)
Inventory	237	(714)
Prefunded insurance premiums from financing	255	292
Prepaid expenses and other current assets	(261)	(243)
Other assets	(174)	35
Accounts payable	(354)	(167)
Accrued expenses	(470)	73
Taxes payable	(11)	3
Other liabilities	-	(10)
Net cash used in operating activities	<u>(3,819)</u>	<u>(5,957)</u>
INVESTING ACTIVITIES:		
Proceeds from insurance claim on property damage	-	31
Proceeds from sale of fixed assets	-	98
Purchase of fixed assets	(73)	(29)
Net cash (used in) provided by investing activities	<u>(73)</u>	<u>100</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible notes, net	-	2,354
Proceeds from issuance of common stock and warrants, net	-	7,152
Proceeds from the exercise of Pinestar Warrants	9	-
Repayments on insurance financing	(255)	(292)
Net cash (used in) provided by financing activities	<u>(246)</u>	<u>9,214</u>
Net change in cash and cash equivalents	(4,138)	3,357
Effect of exchange rate changes on cash	34	(53)
Cash and cash equivalents, beginning of period	7,971	4,667
Cash and cash equivalents, end of period	<u>\$ 3,867</u>	<u>\$ 7,971</u>
Supplemental disclosure:		
Cash paid during period for:		
Interest	\$ -	47
Income taxes	35	\$ 23
Supplemental disclosure of non-cash transactions:		
Conversion of notes payable	\$ -	\$ 5,147

See accompanying notes to consolidated financial statements.

JONES SODA CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2023 and 2022

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, 2023 and 2022, we had cash and cash-equivalents of approximately \$3.9 million and \$8.0 million, respectively, and working capital of approximately \$7.2 million and \$11.6 million, respectively. Net cash used in operations during fiscal years 2023 and 2022 totaled approximately \$3.8 million and \$6.0 million, respectively. We incurred a net loss of approximately \$4.9 million for the year ended December 31, 2023 compared to a net loss of approximately \$6.4 million for the year ended December 31, 2022. Our accumulated deficit increased to \$83.1 million as of December 31, 2023 compared to an accumulated deficit of \$78.2 million as of December 31, 2022.

For the year ended December 31, 2023, net cash used in financing activities totaled approximately \$246,000 due to the repayments on our insurance financing agreement being partially offset by proceeds received by the exercise of outstanding warrants. For the year ended December 31, 2022, net cash provided by financing activities totaled approximately \$9.2 million which was driven by \$7.1 million in net proceeds the Company received as part of the consummation of a statutory plan of arrangement under the Business Corporations Act (British Columbia) with Pinestar Gold Inc., combined with the net proceeds received from the issuance of \$3,000,000 in Contingent Convertible Debentures (see Note 5), being partially offset by repayments on our insurance financing agreement in 2022.

We have experienced recurring losses from operations and negative cash flows from operating activities. These factors initially raised substantial doubt regarding the Company's ability to continue as a going concern. The Company has increased gross margins in 2023. In 2024, the Company is restructuring its customer distribution channels and has partnered with certain distributors (primarily DOT Foods Canada, Note 14). Year to date sales for 2024 with a certain distributor has resulted in more favorable margins and the trend should continue throughout 2024. Additionally, the Company is concentrating on product mix and customer channels that yield higher sales and margins (such as the food service channel), focused on the sales growth in the Mary Jones Brand and monitoring and reducing operating costs when and if possible. On March 29, 2024, the Company received a commitment letter from a creditor to provide the Company with a \$2 million revolving credit facility for working capital needs (Note 14). The maturity date will be three years from the date of initial funding.

Based on management's current operating plan, the Company believes its cash on hand, projected cash generated from product sales and funds received from the committed revolving credit facility are sufficient to fund the Company's operations for a period of at least 12 months subsequent to the issuance of the accompanying Consolidated Financial Statements and alleviates the conditions that initially raised substantial doubt regarding the Company's ability to continue as a going concern.

During 2023 and 2022, we received nil 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.

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, accounts receivable credit loss reserve, 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 credit losses is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance for credit losses based primarily on current trends and estimates. The Company reserves a percentage of trade receivable balance based on collection history and current economic trends that the Company expects will impact the level of credit losses over the life of the receivables. These reserves are re-evaluated on a regular basis and adjusted as needed. Once a receivable is deemed to be uncollectible, such balance is charged against the reserve. Allowances for credit losses of approximately \$260,000 and \$110,000 as of December 31, 2023 and 2022, 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 credit losses consists of the following for the years ended December 31 (in thousands):

	2023	2022
Balance, beginning of year	\$ 110	\$ 114
Net charges to bad debt expense	259	(5)
Write-offs	(109)	1
Balance, end of year	<u>\$ 260</u>	<u>\$ 110</u>

As of December 31, 2023, there were no customers that make up a material concentration amount of our accounts receivable. As of December 31, 2022, two customers that made up 22% 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 \$73,000 and \$156,000 for the years ended December 31, 2023 and 2022, 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 losses as of December 31, 2023 and 2022 were \$1,000 and \$7,000, respectively.

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 \$147,000 and \$163,000 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022, our revenue was reduced by approximately \$1.6 million for both years, 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 recorded as a deduction to revenues in the accompanying consolidated statements of operations. As of December 31, 2023 and 2022, prompt pay discounts to these certain customers were considered immaterial to the related accounts receivable balances presented on the accompanying consolidated balance sheets.

Advertising costs

Advertising costs, which also include promotions and sponsorships, are expensed as incurred. During the years ended December 31, 2023 and 2022, we incurred advertising costs of \$1.2 million and \$1.0 million, 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, 2023 or 2022.

The Company recognizes accrued interest and penalties related to uncertain tax positions, if any, as income tax expense. The Company's tax returns for the years ended December 31, 2020 through 2022 remain subject to examination by their major tax jurisdictions.

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 2023 and 2022, outstanding stock options amounting to 11,407,772 and 3,369,332 shares and outstanding warrants of 27,521,945 and 27,721,945, 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

In June 2016, the FASB issued ASU 2016-13, Financial Instruments: Credit Losses (“ASU 2016-13”), which changes the impairment model for most financial instruments, including trade receivables from an incurred loss method to a new forward-looking approach, based on expected losses. The estimate of expected credit losses require entities to incorporate considerations of historical information, current information and reasonable and supportable forecasts. This ASU was effective for us in the first quarter of 2023, however the impact on the consolidated financial statements are immaterial, thus no material changes were made to the consolidated financial statements as of December 31, 2023.

Recent Accounting Guidance Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting, which expands annual and interim disclosure requirements for reportable segments, primarily through enhanced disclosures about significant segment expenses. The updated standard is effective for our annual periods beginning after December 15, 2023 and interim periods beginning in the first quarter of fiscal 2025. Early adoption is permitted. We are currently evaluating the impact that the updated standard will have on our consolidated financial statements and financial statement disclosures.

2. Inventory

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

	December 31, 2023	December 31, 2022
Finished goods	\$ 1,380	\$ 1,234
Raw materials	1,012	1,387
	<u>\$ 2,392</u>	<u>\$ 2,621</u>

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):

	2023	2022
Vehicles	\$ 65	\$ 37
Equipment	235	210
Office and computer equipment	203	189
	503	436
Accumulated depreciation	(366)	(309)
	<u>\$ 137</u>	<u>\$ 127</u>

Depreciation expense was \$63,000 and \$66,000, for the years ended December 31, 2023 and 2022, respectively. Depreciation expense is primarily associated with the Company's equipment and vehicles. The company did not record any gains or losses from the disposals of fixed assets during 2023. The company recorded a gain on disposal of fixed assets of \$54,000 during the year ended December 31, 2022.

4. Accrued Expenses

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

	2023	2022
Employee benefits	\$ 317	\$ 604
Selling and marketing	302	465
Other accruals	664	575
	<u>\$ 1,283</u>	<u>\$ 1,644</u>

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 December 31, 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 / 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 December 31, 2023 and 2022 was \$0.

6. Membership Agreement Obligation

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. Upon renewal, the company elected to enter into a month-to-month arrangement with Saltbox. Under this arrangement, the Company pays \$9,000 per month.

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, 2023, there were 6,330,250 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, 2023	3,369,332	\$ 0.41
Options granted	9,659,000	0.23
Options forfeited/expired	(1,620,560)	0.41
Balance at December 31, 2023	11,407,772	\$ 0.26
Exercisable, December 31, 2023	3,599,020	\$ 0.32
Vested and expected to vest	9,561,702	\$ 0.26

	Outstanding Options	
	Number of Shares	Weighted Average Exercise Price
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

The following table summarizes information about stock options outstanding and exercisable under our stock incentive plans at December 31, 2023:

	Number Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price Per Share
\$0.15 to \$0.50	11,188,698	8.70	\$ 0.25	3,395,572	7.25	\$ 0.30
\$0.51 to \$1.09	214,074	7.35	0.64	198,448	7.29	0.63
\$1.10 to \$2.99	5,000	7.59	1.33	5,000	7.59	1.33
	<u>11,407,772</u>	8.67	0.26	<u>3,599,020</u>	7.25	0.32

(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.

A summary of our 2023 and 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, 2023	-	\$ -	-
Granted	1,800,000	0.26	
Vested	(1,200,000)	0.26	
Cancelled/expired	-	-	
Non-vested restricted stock at December 31, 2023	600,000	\$ 0.26	9.1

	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, 2023, we had unrecognized compensation expense related to stock options and non-vested stock of \$808,000 to be recognized over a weighted-average period of 2.16 years.

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

	Year Ended December 31,	
	2023	2022
Stock options	\$ 485	\$ 353
Common stock award	17	-
Pinestar warrants (defined below)	-	76
Restricted stock	192	935
	<u>\$ 694</u>	<u>\$ 1,364</u>
Income statement account:		
Selling and marketing	\$ 32	\$ 843
General and administrative	662	521
	<u>\$ 694</u>	<u>\$ 1,364</u>

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,	
	2023	2022
Expected dividend yield	—	—
Expected stock price volatility	87.5%	79.3%
Risk-free interest rate	3.9%	2.2%
Expected term (in years)	5.8	6.0
Weighted-average grant date fair-value	\$ 0.17	\$ 0.35

During the year ended December 31, 2023, no material modifications were made to outstanding stock options.

The aggregate intrinsic value of stock options outstanding at December 31, 2023 and 2022 was \$0 and \$77,000, respectively and for options exercisable was \$0 and \$77,000, 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, 2023 and 2022 was zero for both years. During the years ended December 31, 2023 and 2022, there were zero options exercised during both years. 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, 2023:

	Number Outstanding	Remaining Contractual Life (Years)	Exercise Price Per Share	Number Exercisable
Jones Special Warrants (1)	26,047,137	0.20	\$ 0.63 USD	26,047,137
Pinestar Warrants (2)	1,474,808	0.25	0.06 CAD	1,474,808
	<u>27,521,945</u>			<u>27,521,945</u>

(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.

During the year ended December 31, 2023, Pinestar Warrants in the amount of 200,000 were exercised at the exercise price of \$0.06 CAD, for total proceeds of \$9,000.

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 any contributions to the 401(k) plan. During the years ended December 31, 2023 and 2022 we did accrue and fund our employees’ 401(k) accounts in 2023 and 2022 for matching contributions in the amount of \$36,000 and \$42,000, respectively.

9. Commitments and Contingencies

Commitments

As of December 31, 2023, we continue to have commitments to various suppliers of raw materials. Purchase obligations under these commitments are expected to total \$1.2 million in 2024.

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.

On March 25, 2024, our indirect wholly owned subsidiary, Mary Jones Michigan LLC, received a Notice of Claims (“Core Claim”) for arbitration from Core Manufacturing, LLC (“Core”), who claimed that the Company was in breach of its commitments under the agreement between the Company and Core. Core is seeking, amongst other damages, the enforcement of the break-up fee provision in such agreement, which they calculate to be \$7,220,357. We dispute the allegations of Core in the Core Claim and intend to defend ourselves vigorously in this matter. We have determined that it is too early in process to evaluate this Claim’s potential outcome, accordingly, the matter is being disclosed and no range of accrual, if any, can be determined.

10. Income Taxes

The provision for income taxes consisted of the following for the years ended December 31 (in thousands):

	2023	2022
Current		
State	\$ 13	\$ 7
Foreign	20	21
Provision for income taxes	<u>\$ 33</u>	<u>\$ 28</u>

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

	2023	2022
United States	\$ (4,901)	\$ (6,469)
Foreign	80	93
Total	<u>\$ (4,821)</u>	<u>\$ (6,376)</u>

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

	2023	2022
Federal statutory rate	21.00%	21.00%
Effect of:		
Permanent differences	(0.13)	(1.17)
Stock Compensation	(1.15)	(0.85)
State income taxes, net of federal benefit	1.35	0.77
Change in valuation allowance	(22.57)	(16.20)
Other, net	0.83	(3.99)
Provision for income taxes	<u>(0.68)%</u>	<u>(0.44)%</u>

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):

	2023	2022
Federal and state net operating loss carryforwards	\$ 16,872	\$ 15,765
Stock-based compensation	262	212
Other, net	82	205
Total deferred tax asset	<u>17,217</u>	<u>16,182</u>
Valuation allowance	<u>(17,217)</u>	<u>(16,182)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

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, 2023 and December 31, 2022, the valuation allowance increased by \$1.03 million, and \$1 million, 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, 2023, we had net operating loss carryforwards for federal and state income tax purposes of \$54.9 million, and \$21.2 million respectively, which expire at various times commencing 2024. We also had net operating loss carryforwards for federal and state income tax purposes of \$19.5 million, and \$0.5 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, 2023 and 2022.

We are no longer subject to U.S. Federal examination for tax years ending before 2020, to state examinations before 2019, or to foreign examinations before 2019. However, to the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward and make adjustments up to the amount of the net operating losses or credit carryforward. At December 31, 2023, we were not under examination by a tax authority. The net operating losses for prior years are subject to adjustment under examination to the extent they remain unutilized in an open year.

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,	
	2023	2022
Revenue:		
United States	\$ 13,537	\$ 15,313
Canada	3,072	3,609
Other countries	60	163
Total revenue	<u>\$ 16,669</u>	<u>\$ 19,085</u>

During each of the years ended December 31, 2023 and 2022 one of our customers represented approximately 17% of our revenues for both years.

12. Insurance Premium Financing

Effective November 15, 2023, the Company entered into a one year financing agreement with IPFS Corporation to fund a portion of its insurance premiums in the amount of \$357,000. Repayments are made quarterly on January 15, 2024, April 15, 2024, and by July 15, 2024, the entirety of the financing is paid off in full. The interest rate is 8.49% 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 were 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

During the year ended December 31, 2023, 200,000 Pinestar Warrants, as described in Note 7 were exercised by one of our Board members, Paul Norman, at the exercise price of \$0.06 CAD, for total proceeds of \$9,000.

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.

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 former director and the former Chairman of our Board of Directors and former Interim Chief Financial Officer, Mark Murray, our former President and former Chief Executive Officer and a current 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.

14. Subsequent Events

Effective in Q1 of 2024, we decided to switch independent distributors from Lassonde to Dot Foods Canada. For the year ended December 31, 2023, Lassonde was our top distributor and made up approximately 17% of our sales revenue during 2023.

On March 29, 2024, the Company received a commitment letter from a creditor to provide the Company with a \$2 million revolving credit facility for working capital needs. The maturity date will be three years from the date of initial funding.

