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.

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 license cannabis infused beverages and syrups in California and Washington. 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 license several cannabis infused beverages and syrups in California and Washington 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; and
- Grow the new licensing revenue through Mary Jones product lines of Tetrahydrocannabinol (THC) and cannabidiol (CBD)-infused beverages, edibles, and other related products;

Results of Operations

Years Ended December 31, 2023 and 2022

Revenue

For the year ended December 31, 2023, revenue was approximately $16.7 million, a decrease of $2.4 million, or 12.7%, from approximately $19.1 million in revenue for the year ended December 31, 2022. This decrease was primarily a result of $1.5 million in revenues from core bottle soda sales from a one-time inventory stocking event with one of our largest customers in 2022 that was not repeated during 2023. Additionally, the decrease in sales revenue was also a result of a decrease in fountain sales and sales related to the food services during 2023 compared to 2022. Additionally, we experienced a decrease in Canadian DSD sales. These decreases were partially offset by an approximate increase of $950,000 in licensing revenues from our Mary Jones beverages and syrups sold during 2023. For both years ended December 31, 2023 and 2022, promotion allowances and slotting fees, which offset revenue, totaled approximately $1.6 million.

During 2023 and 2022, the percentage of our revenues generated in Canada was 18% and 19%, respectively.

Gross Profit

	Year Ended December 31,		
	2023	2022	% Change
	(Dollars in thousands)		
Gross Profit	$ 4,855	$ 5,143	-5.6%
% of Revenue	29.1%	26.9%	

For the year ended December 31, 2023, gross profit decreased by $288,000, or 5.6%, to approximately $4.9 million compared to approximately $5.1 million for the year ended December 31, 2022, as a result of reduced sales revenue in 2023 being partially offset by reduced costs primarily due to improved supply chain management and proactive pricing adjustments. For the year ended December 31, 2023, gross margin increased to 29.1% from 26.9% for the year ended December 31, 2022.

Selling and Marketing Expenses

Selling and marketing expenses for the year ended December 31, 2023 were approximately $4.4 million, a decrease of $587,000, or 11.8%, from approximately $5.0 million for the year ended December 31, 2022. This decrease 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 2022 that did not occur again in 2023. Selling and marketing expenses as a percentage of revenue was 26.3% for the year ended December 31, 2023 compared to 26.0% for the year ended December 31, 2022. 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, 2023 were approximately $5.4 million, a decrease of $900,000, or 14.6%, compared to approximately $6.3 million for the year ended December 31, 2022. This decrease was primarily a result of fewer general business start-up costs associated with the development of our Mary Jones brand in 2023 compared to 2022. General and administrative expenses as a percentage of revenue decreased to 32.1% for the year ended December 31, 2023 from 32.9% in 2022. We will continue work on balancing general and administrative expenses with our working capital resources.

Interest Expense

We incurred no interest expense during 2023, compared to approximately $377,000 for the year ended December 31, 2022. The $377,000 interest expense incurred during 2022 was primarily related to the conversions of both the Contingent Convertible Debentures and the remaining 2018 Convertible Notes (each as discussed in Note 5) that resulted in all capitalized costs associated with the issuance of these notes being fully expensed upon conversion. The interest expense incurred during 2022 was non-cash.

Interest Income

We earned approximately $52,000 of interest income for the year ended December 31, 2023, compared to $6,000 for the year ended December 31, 2022. This increase was attributed to the increase in interest rates in 2023 compared to 2022.

Income Tax Expense

We had income tax expense of $33,000 and $28,000 for the years ended December 31, 2023 and 2022, 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, 2023 decreased to approximately $4.9 million from a net loss of $6.4 million for the year ended December 31, 2022. The decrease in net loss was primarily due to the decreased marketing and administrative costs associated with the launch of our cannabis infused beverage and syrups that occurred 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 that did not repeat in 2023.

Liquidity and Capital Resources

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.

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 we are 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 are 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.