

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of Jones Soda Co.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Jones Soda Co. (the “Company”), as of December 31, 2025 and the related consolidated statement of operations and comprehensive loss, shareholders’ equity, and cash flows for the year ended December 31, 2025, and the related notes and schedules (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jones Soda Co. as of December 31, 2025 and the results of its operations and its cash flows for the year ended December 31, 2025 in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the 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 audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments.

We determined that there are no critical audit matters.

We have served as the Company’s auditor since 2025.

/s/ **DAVIDSON & COMPANY LLP**

Chartered Professional Accountants

Vancouver, Canada

March 31, 2026

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JONES SODA CO.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	December 31, 2025	December 31, 2024
ASSETS		
Current assets:		
Cash	\$ 3,599	\$ 1,275
Accounts receivable, net of allowance of \$50 and \$77, respectively	3,603	1,858
Note receivable	1,400	-
Current licensing fees receivable	150	-
Inventories, net	2,657	3,364
Prefunded insurance premiums from financing	214	199
Prepaid expenses and other current assets	1,224	614
Deferred financing costs	415	-
Current assets of discontinued operations	-	1,070
Total current assets	13,262	8,380
Long-term licensing fees receivable	1,647	-
Fixed assets, net of accumulated depreciation of \$583 and \$422, respectively	321	108
Non-current assets of discontinued operations	-	35
Total assets	\$ 15,230	\$ 8,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,378	\$ 3,279
Accrued expenses	3,960	2,464
Revolving credit facility and loans	3,022	291
Insurance premium financing	214	199
Promissory notes	190	-
Current liabilities of discontinued operations	-	134
Total current liabilities	13,764	6,367
Total liabilities	13,764	6,367
Commitments and contingencies (Note 14)		
Shareholders' equity:		
Common stock, no par value:		
Authorized — 800,000,000 . Issued and outstanding shares — 118,227,478 shares and 115,867,659 shares, respectively	95,895	94,883
Accumulated other comprehensive income	299	222
Accumulated deficit	(94,728)	(92,949)
Total shareholders' equity	1,466	2,156
Total liabilities and shareholders' equity	\$ 15,230	\$ 8,523

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year ended December 31,	
	2025	2024
Net Revenue	\$ 25,303	\$ 17,793
Cost of goods sold	(18,539)	(14,132)
Gross profit	6,764	3,661
Operating expenses:		
Selling and marketing	5,254	5,580
General and administrative	6,276	7,812
Total operating expenses	(11,530)	(13,392)
Loss from operations	(4,766)	(9,731)
Other income (expenses):		
Interest income	103	17
Interest expense	(411)	(11)
Other income (expense), net	(203)	6
Loss on sale of note receivables	(280)	-
Gain on disposition of subsidiaries	3,877	-
Total other income (expense)	3,086	12
Loss before income taxes	(1,680)	(9,719)
Income tax provision	(8)	(25)
Loss from continuing operations	(1,688)	(9,744)
Loss from discontinued operations	(91)	(151)
Net loss	\$ (1,779)	\$ (9,895)
Earning (loss) per share – basic and diluted		
Loss from continuing operations	\$ (0.01)	\$ (0.09)
Loss from discontinued operations	\$ (0.00)	\$ (0.00)
Total	\$ (0.01)	\$ (0.09)
Weighted average common shares outstanding - basic and diluted	116,809,839	107,481,563

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands, except per share data)

	Year ended December 31,	
	2025	2024
Net loss	\$ (1,779)	\$ (9,895)
Other comprehensive (loss) income		
Foreign currency translation adjustment	66	(109)
Reclassification of foreign currency translation differences upon disposal of the foreign operation	11	-
Total comprehensive loss	<u>\$ (1,702)</u>	<u>\$ (10,004)</u>

See accompanying notes to consolidated financial statements

JONES SODA CO.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Years Ended December 31, 2025 and 2024 (In thousands, except share data)

	Common Stock		Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity
	Number	Amount			
Balance as of December 31, 2023	101,258,135	90,273	331	(83,054)	7,550
Stock-based compensation	3,397,959	1,078	-	-	1,078
Shares withheld for taxes upon RSU vesting	(909,493)	(150)	-	-	(150)
Exercise of Pinestar Warrants	974,808	44	-	-	44
Private Placement Offering, net of issuance costs	11,010,000	3,601	-	-	3,601
Exercise of Stock Options	136,250	37	-	-	37
Net loss	-	-	-	(9,895)	(9,895)
Other comprehensive loss	-	-	(109)	-	(109)
Balance as of December 31, 2024	115,867,659	\$ 94,883	\$ 222	\$ (92,949)	\$ 2,156
Shares issued for restricted share units	2,359,819	-	-	-	-
Fair value of warrants issued	-	65	-	-	65
Stock-based compensation	-	947	-	-	947
Net loss	-	-	-	(1,779)	(1,779)
Other comprehensive income	-	-	77	-	77
Balance as of December 31, 2025	118,227,478	\$ 95,895	\$ 299	\$ (94,728)	\$ 1,466

See accompanying notes to consolidated financial statements.

JONES SODA CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands, except share data)

	Year ended December 31,	
	2025	2024
OPERATING ACTIVITIES:		
Net loss	\$ (1,779)	\$ (9,895)
Add: Loss from discontinued operations	91	151
Net loss from continuing operations	(1,688)	(9,744)
Adjustments to reconcile net income (loss) to net cash flows used in operating activities:		
Accretion of interest of note receivable	(90)	-
Finance income	(17)	-
Finance costs	269	-
Licensing fees	(85)	-
Loss on disposal	10	-
Loss on sale of note receivables	280	-
Gain on disposition of subsidiaries	(3,877)	-
Depreciation	221	56
Stock-based compensation	947	1,078
Change in allowance for credit losses	-	(183)
Write-off of obsolete inventory	1,209	1,223
Changes in operating assets and liabilities:		
Accounts receivable	(1,575)	(22)
Inventories	(487)	(2,447)
Deferred financing costs	(415)	-
Prefunded insurance premiums from financing	221	158
Prepaid expenses and other current assets	(757)	(362)
Accounts payable	3,090	2,765
Accrued expenses	1,480	1,285
Net cash used in continuing operations	(1,264)	(6,193)
INVESTING ACTIVITIES:		
Disposal of a subsidiary, net of cash disposed of	885	-
Proceeds from disposal of property, plant and equipment	10	-
Purchase of property, plant and equipment	(454)	(27)
Net cash provided by (used in) investing activities	441	(27)
FINANCING ACTIVITIES:		
Net Proceeds from Private Placement Offering	-	3,601
Net cash from revolving credit facility	2,567	291
Proceeds on issuance of promissory notes	450	-
Repayment of promissory notes	(300)	-
Proceeds from the exercise of Pinestar Warrants	-	44
Proceeds from the exercise of stock options	-	37
Payment of taxes on RSU withholding	-	(150)
Repayments on insurance financing	(221)	(158)
Net cash provided by financing activities	2,496	3,665
DISCONTINUED OPERATIONS:		
Net cash provided by operating activities of discontinued operations	329	300
Net cash provided by discontinued operations	329	300
Net change in cash	2,002	2,255
Effect of exchange rate changes on cash	64	(79)
Cash from continuing operations, beginning of period	1,275	1,748
Cash from discontinued operations, beginning of period	258	2,119
Less: Cash from discontinued operations, end of period	-	(258)
Cash, end of period	\$ 3,599	\$ 1,275
Supplemental disclosure:		
Fair value of warrants issued	65	-
Initial recognition of note receivable	2,590	-
Initial recognition of licensing fee receivable	1,696	-
Reclassification of current portion of note receivable	1,400	-
Reclassification of current portion of licensing fee receivable	150	-
Prepaid insurance financed through an insurance premium financing arrangement.	210	-
Cash paid during the period for:		
Interest	\$ 164	\$ -
Income taxes	\$ -	\$ -

See accompanying notes to consolidated financial statements.

JONES SODA CO.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
Years Ended December 31, 2025 and 2024**1. Nature of Operations and Summary of Significant Accounting Policies**

Jones Soda Co. develop, produce, market and distribute premium beverages that we sell and distribute primarily in the United States and Canada through our network of independent distributors and directly to our national and regional retail accounts. We also sell products in select international markets. Our products are sold in grocery stores, convenience and gas stores, on fountain in restaurants, “up and down the street” in independent accounts such as delicatessens, sandwich shops and burger restaurants, as well as through our national accounts with several large retailers. We refer to our network of independent distributors as our direct store delivery (“DSD”) channel, and we refer to our national and regional accounts who receive shipments directly from us as our direct to retail (“DTR”) channel. We do not directly manufacture our products, but instead outsource the manufacturing process to third-party contract manufacturers. We also sell various products online, including soda with customized labels, wearables, candy and other items, and we license our trademarks for use on products sold by other manufacturers. In addition, during 2022, we developed and began to license THC infused cannabis products under the “Mary Jones” brand name in various U.S. states that permitted the sale of THC infused products. We also have a royalty-free license in perpetuity to intellectual property related to Mary Jones for us to license Mary Jones products for use only in Canada.

We are a Washington corporation and have the following subsidiaries: Jones Soda Co. (USA) Inc., Jones Soda (Canada) Inc., Pinestar Gold Inc., and Mary Jones Holdco 2, Inc. (collectively, the “Subsidiaries”).

On June 19, 2025, the Company consummated a Share Purchase Agreement (the “SPA”), as amended, with MJ Reg Disrupters LLC (“MJ Reg”) pursuant to which it sold all of the issued and outstanding equity interests in its wholly owned subsidiaries that operate the cannabis (THC) beverage business (the “Cannabis Subsidiaries”) (Note 2).

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, 2025 and 2024, we had cash and cash-equivalents of approximately \$3.6 million and \$1.3 million, respectively, and working capital of approximately (\$0.5) million and \$2.0 million, respectively. Net cash used in continuing operations during fiscal years 2025 and 2024 totaled approximately \$1.3 million and \$6.2 million, respectively which is an improvement of \$4.9 million for the year ended December 31, 2025.

For the year ended December 31, 2025, cash used in operating activities decreased by approximately \$4.9 million compared to the prior year. This change was primarily driven by an improvement in net loss after adjusting for non-cash items, which decreased by approximately \$4.7 million relative to 2024. Cash generated from changes in non-cash working capital compared to the prior year was improved by \$0.2 million. We incurred a net loss of approximately \$1.7 million from continuing operations in 2025, compared to a net loss of approximately \$9.7 million in 2024, reflecting the lower operating loss as well as the impact of the gain on the disposition of subsidiaries. Our accumulated deficit increased to \$94.7 million as of December 31, 2025, compared to \$92.9 million as of December 31, 2024.

Financing activities provided net cash inflows of approximately \$2.5 million for the year ended December 31, 2025, compared to net cash inflows of \$3.7 million in 2024. The 2025 inflows were primarily attributable to proceeds from new loan financing and the issuance of promissory notes, partially offset by repayments on existing debt and insurance financing arrangements. In contrast, the 2024 inflows were driven largely by the completion of a private placement offering, which generated net proceeds of \$3.6 million, along with net borrowings under the revolving credit facility and proceeds from the exercise of warrants and stock options. These inflows were offset by repayments on the insurance financing agreement and withholding taxes related to restricted share units.

Investing activities provided net cash of approximately \$0.4 million in 2025, compared to cash used of \$27 thousand in 2024. The increase was primarily due to proceeds received from the disposal of a subsidiary, net of cash disposed, along with the proceeds from the sale of property, plant and equipment.

We have experienced recurring losses from operations and negative cash flows from operating activities. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. To address this issue, in the first quarter of fiscal year 2025, the Company changed its senior leadership and is focusing on reducing its operating expenses while bringing products to market with higher margins and potentially higher customer demand. Additionally, on February 19, 2025, the Company, through a wholly-owned subsidiary (the "Subsidiary"), entered into loan agreement (the "Loan Agreement") with Two Shores Capital Corp ("Two Shores"), pursuant to which the Subsidiary may borrow a maximum aggregate amount of up to \$5 million, subject to satisfaction of certain conditions. All advances drawn under the Loan Agreement will bear interest at a rate of 13.75% per annum and all present and future obligations of the Subsidiary arising under the Loan Agreement are secured by a first priority security interest in all of the assets of the Company, the Subsidiary and the Company's other United States subsidiaries. The Loan Agreement replaces the \$2 million revolving credit facility entered into by the Company in March 2024 (the "2024 Credit Facility"). The borrowing base under the Loan Agreement expands the assets that can be financed against from only accounts receivable under the 2024 Credit Facility to accounts receivable, inventory and customer purchase orders. The Loan Agreement was amended on December 1, 2025 to increase the facility to \$10 million.

Based on management's current operating plan, the Company believes its cash on hand, projected cash generated from product sales and funds received from under the Loan Agreement 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. There is no assurance that management's current operating plan will be successful.

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 measurements

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 \$0.1 million and \$0.1 million as of December 31, 2025 and 2024, 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):

	2025	2024
Beginning of year	\$ 77	\$ 260
Net charges to credit loss	467	133
Write-offs	(494)	(316)
End of year	\$ 50	\$ 77

As of December 31, 2025, one customer accounted for approximately 44% of our accounts receivable, whereas as of December 31, 2024, no individual customer represented a material concentration of our 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 \$1.2 million and \$1.0 million for the years ended December 31, 2025 and 2024, 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.

For the years ended December 31, 2025, and 2024, the Company recorded no impairment loss related to these assets.

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 statements of operations.

Revenue recognition

The Company recognizes revenue under Accounting Standards Codification (“ASC”) (Topic 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 16, 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 approximately \$0.4 million and \$0.1 million for the years ended December 31, 2025 and 2024, 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, 2025 and 2024, our revenue was reduced by approximately \$2.7 million and \$4.3 million, respectively, for slotting fees and promotion allowances.

All sales to distributors and customers are generally final. In limited instances we may accept returned product due to quality issues or distributor terminations, and in such situations we would have variable consideration. 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, 2025 and 2024, 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, including promotions and sponsorships, are expensed as incurred. For the years ended December 31, 2025, and 2024, we incurred advertising costs of \$0.7 million and \$1.2 million, respectively.

Stock-Based Compensation Expense

The Company recognizes stock-based compensation expense within the operating expenses in the Consolidated Statements of Operations related to the fair value of employee stock-based awards ratably over the vesting period and only for awards expected to vest. Estimated forfeiture rates are based on historical data and are periodically reassessed.

Compensation cost is based on the grant-date fair value. The fair value of RSUs is determined based on the number of units granted and the grant date price of common stock.

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, 2025 or 2024.

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, 2021 through 2025 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 2025 and 2024, outstanding stock options amounting to 15,373,243 and 8,647,984, respectively, outstanding warrants of 6,945,400 and 5,945,400, respectively, and outstanding restricted share units of 553,439 and nil, 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.

Recently Adopted Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-09: Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This guidance requires entities to provide more detailed disclosures about income tax expenses (or benefits), including components of the expense (or benefit) and the nature of significant reconciling items. Entities must also disclose information about unrecognized tax benefits, including a tabular reconciliation of beginning and ending balances of unrecognized tax benefits, and details about valuation allowances, including the nature and amount of valuation allowances recorded and released during the period. The guidance is effective for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted. The adoption of ASU 2023-09 did not have a material impact on the Company’s consolidated financial statements.

In March 2024, the FASB issued ASU 2024-01: Compensation—Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards. This update provides guidance on the scope application of profits interest and similar awards under Topic 718. The amendments improve clarity and understanding of paragraph 718-10-15-3, aiding entities in determining whether a profits interest award should be accounted for as a share-based payment arrangement or similar to a cash bonus or profit-sharing arrangement. For public business entities, the amendments are effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. The adoption of ASU 2024-01 did not have a material impact on the Company’s consolidated financial statements.

Recent Accounting Guidance Not Yet Adopted

In November 2024, the FASB issued ASU 2024-03: Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40). This update requires entities to disaggregate income statement expenses. The guidance is effective for fiscal years beginning after December 15, 2025, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact of the updated standard on our consolidated financial statements and disclosures.

In December 2024, the FASB issued Accounting Standards Update (ASU) 2024-04, Debt—Debt with Conversion and Other Options (Subtopic 470-20): Induced Conversions of Convertible Debt Instruments. This update provides guidance on accounting for induced conversions of convertible debt instruments, clarifying the criteria for determining whether settlements should be accounted for as an induced conversion. The amendments specify that an inducement offer must provide the debt holder with consideration meeting or exceeding the conversion privileges outlined in the instrument’s original terms. Additionally, the update addresses convertible debt instruments that are not currently convertible but included substantive conversion features at issuance and at the time of the inducement. The guidance is effective for fiscal years beginning after December 15, 2025, including interim periods within those fiscal years. Early adoption is permitted for entities that have adopted ASU 2020-06. We are currently evaluating the impact of adopting this guidance on our consolidated financial statements and disclosures.

2. Discontinued Operations

As disclosed in Note 1, on June 19, 2025 (the “Date of Disposition”), the Company entered into the SPA to sell of all issued and outstanding equity interests in its cannabis beverage subsidiaries (the “Cannabis Subsidiaries”) pursuant to a share purchase agreement, as amended, with MJ Reg and discontinued the Cannabis-Derived (THC) Beverage. Subsequent to the transaction, the Company’s former VP of Operations was appointed as the CEO of MJ Reg.

As disclosed in Note 1, on June 19, 2025 (the “Date of Disposition”), the Company entered into the SPA with its cannabis beverage subsidiaries (the “Cannabis Subsidiaries”) and the MJ Reg pursuant to which, on the Date of Disposition, the MJ Reg purchased all of the issued and outstanding shares of the Cannabis Subsidiaries from the Company for the Share Purchase Price of \$3.0 million promissory notes and inventory for approximately \$0.06 million as set forth in the SPA (the “Sale Transaction”). The Share Purchase Price was paid as follows:

- A \$3.0 million promissory note, payable as follows:
 - \$0.5 million at the Date of Disposition (received);
 - \$0.5 million due on June 27, 2025 (received);
 - \$0.5 million due on June 19, 2026;
 - \$0.75 million due on June 19, 2027; and
 - \$0.75 million due on June 19, 2028.

The promissory note accrues interest at the lower of 3% per annum and the lowest amount permitted by law; provided, however, if MJ Reg satisfies its obligations under the promissory note, in full, pursuant to the terms thereof, any interest accrued pursuant to the promissory note shall be waived. Notwithstanding the foregoing, upon the occurrence of an Event of Default (as defined in the promissory note), the outstanding principal amount of the promissory note together with any accrued and unpaid interest thereon shall accrue interest at a rate of 10% per annum. The promissory note shall mature upon the earlier of (i) June 19, 2028 and (ii) in the event of prepayment of the promissory note, the date that the principal amount of the promissory note together with the interest accrued thereon is paid in full by MJ Reg.

On June 19, 2025 (the “License Effective Date”), in connection with the SPA, the Company entered into a trademark license agreement (the “License Agreement”) with MJ Holdings pursuant to which the Company granted MJ Holdings an exclusive, freely-usable and non-transferable, fully sublicensable license to use the Licensed IP (as defined in the License Agreement) during the term of such agreement in connection with the manufacture, sale, distribution, advertising, and promotion of all current and future products (the “Licensed Products”) each consisting of a mutually agreed upon composition, formula, recipe, flavor necessary for the Licensed Products and labeling, container size, and packaging, as applicable, to be made available by MJ Holdings for sale on-site at MJ Holdings’ places of business and/or by means of other distributors of MJ Holdings globally, including in any country or jurisdiction where the sale, marketing, and distribution of the Licensed Products is lawful. Pursuant to the License Agreement, MJ Holdings shall retain the exclusive right to any consumable product containing an emulsion derived from the cannabis plant with a THC concentration greater than 0.3% by dry weight and any Licensed IP in connection therewith. Furthermore, MJ Holdings shall own all Licensee Modified Formulas (as defined in the License Agreement) and such Licensee Modified Formulas may be incorporated and/or otherwise used in connection with a Licensed Product during the term of such agreement and at any time thereafter; provided, however, the Company shall be entitled to license the Licensee Modified Formulas on mutually agreeable terms and conditions. Notwithstanding the foregoing, the Company shall maintain exclusive rights to products containing Hemp (as defined in the SPA). Pursuant to the License Agreement, MJ Holdings shall pay the Company \$0.15 million on the one year anniversary of the License Effective Date and \$0.255 million on each subsequent anniversary of the License Effective Date (the “Licensing Fee”). The Licensing Fee shall be fixed and non-adjustable during the term of the License.

Pursuant to ASC 820, the Company utilized its weighted average cost of capital (WACC) of 11.6% to discount future cash flows and determined the fair values as follows:

- Promissory Note: \$2.59 million
- Licensing Agreement: \$1.70 million

Transaction costs incurred in connection with the disposition totaled \$0.05 million. The gain on disposal of subsidiaries was calculated as follows:

Carrying value (in thousands) of net assets of the Cannabis Subsidiaries		
Cash	\$	3
Accounts receivable		233
Inventories		157
Other assets		22
Accounts payable		(117)
		298
Total consideration received, net of transaction costs		
Cash		61
Fair value of Promissory Note		2,591
Fair value of Licensing Agreement		1,696
Less: Transaction costs		(173)
		4,175
Gain on disposition	\$	3,877

Following is the breakdown of the gain (loss) from discontinued operations:

	Year ended December 31,	
	2025	2024
Net Revenue	\$ 498	\$ 1,362
Cost of goods sold	(78)	(947)
Gross profit	420	415
Operating expenses:		
Selling and marketing	424	528
General and administrative	27	54
Total operating expenses	(451)	582
Gain (Loss) from discontinued operations	(31)	(167)
Other income (expenses):		
Interest income	-	5
Other income (expense), net	-	11
Total other income	-	16
Tax expenses	(60)	-
Net income (loss) from discontinued operations	\$ (91)	\$ (151)

3. Note receivable

As disclosed in Note 2, in connection with the Sale Transaction, the Company issued a promissory note with an aggregate principal amount of \$3.0 million. The note is payable in five installments as follows:

- \$0.5 million at the Date of Disposition (received);
- \$0.5 million due on June 27, 2025 (received);
- \$0.5 million due on June 19, 2026;
- \$0.75 million due on June 19, 2027; and
- \$0.75 million due on June 19, 2028.

The promissory note accrues interest at the lower of 3% per annum and the lowest amount permitted by law; provided, however, if MJ Reg satisfies its obligations under the promissory note, in full, pursuant to the terms thereof, any interest accrued pursuant to the promissory note shall be waived. Notwithstanding the foregoing, upon the occurrence of an Event of Default (as defined in the promissory note), the outstanding principal amount of the promissory note together with any accrued and unpaid interest thereon shall accrue interest at a rate of 10% per annum. The promissory note shall mature upon the earlier of (i) June 19, 2028 and (ii) in the event of prepayment of the promissory note, the date that the principal amount of the promissory note together with the interest accrued thereon is paid in full by MJ Reg.

In accordance with ASC 820, the Company applied its weighted average cost of capital of 11.6% to discount the future cash flows associated with the note and determined the initial fair value to be \$2.59 million. The resulting discount is being amortized over the term of the note using the effective interest method.

For the year ended December 31, 2025, the Company recognized \$0.09 million in finance income related to the amortization of the discount.

As of December 31, 2025, the carrying value of the promissory note was \$1.68 million, of which \$0.50 million was classified as current.

On January 16, 2026, the Company entered into an Assignment and Assumption of Debt Agreement with Two Shores Capital Corp. ("Two Shores") and MJ Reg. Pursuant to the agreement, the Company assigned to Two Shores all of its rights, title, and interest in the promissory note with an outstanding principal balance of \$2.0 million.

As consideration for the assignment, the Company received cash proceeds of \$1.4 million. Upon execution of the agreement, the Company transferred to Two Shores all rights and obligations associated with the promissory note, including the right to receive all future payments. MJ Reg. consented to the assignment and confirmed that the outstanding principal amount of the promissory note was \$2.0 million as of January 16, 2026.

In connection with the transaction, the Company issued to Two Shores 550,000 common stock warrants. Each warrant is exercisable for one share of the Company's common stock at an exercise price of \$0.40 per share and expires on January 16, 2029.

As a result of the assignment, the Company reduced the carrying amount of the note receivable to \$1.4 million as of December 31, 2025 and recognized a loss on sale of receivables of \$0.28 million.

4. Licensing fees receivable

As disclosed in Note 2, in connection with the Sale Transaction, the Company entered into the License Agreement with MJ Holdings pursuant to which the Company granted MJ Holdings an exclusive, freely-usable and non-transferable, fully sublicensable license to use the Licensed IP (as defined in the License Agreement) during the term of such agreement in connection with the manufacture, sale, distribution, advertising, and promotion of all current and future products (the “Licensed Products”) each consisting of a mutually agreed upon composition, formula, recipe, flavor necessary for the Licensed Products and labeling, container size, and packaging, as applicable, to be made available by MJ Holdings for sale on-site at MJ Holdings’ places of business and/or by means of other distributors of MJ Holdings globally, including in any country or jurisdiction where the sale, marketing, and distribution of the Licensed Products is lawful. Pursuant to the License Agreement, MJ Holdings shall retain the exclusive right to any consumable product containing an emulsion derived from the cannabis plant with a THC concentration greater than 0.3% by dry weight and any Licensed IP in connection therewith. Furthermore, MJ Holdings shall own all Licensee Modified Formulas (as defined in the License Agreement) and such Licensee Modified Formulas may be incorporated and/or otherwise used in connection with a Licensed Product during the term of such agreement and at any time thereafter; provided, however, the Company shall be entitled to license the Licensee Modified Formulas on mutually agreeable terms and conditions. Notwithstanding the foregoing, the Company shall maintain exclusive rights to products containing Hemp (as defined in the SPA). Pursuant to the License Agreement, MJ Holdings shall pay the Company \$0.15 million on the one-year anniversary of the License Effective Date and \$0.255 million on each subsequent anniversary of the License Effective Date (the “Licensing Fee”). The Licensing Fee shall be fixed and non-adjustable during the term of the License.

In accordance with ASC 820, the Company utilized its weighted average cost of capital of 11.6% to discount the expected future cash flows associated with the Licensing Fee and determined the initial fair value of the License Agreement to be \$1.70 million. The resulting discount is being amortized over the term of the License Agreement using the effective interest method.

For the year ended December 31, 2025, the Company recognized \$0.08 million in licensing revenue and \$0.01 million in finance income related to the amortization of the discount.

As of December 31, 2025, the carrying value of the License Agreement receivable was \$1.8 million, of which \$0.15 million was classified as current.

5. Inventory

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

	2025	2024
Finished goods	\$ 1,923	\$ 2,198
Raw materials	734	1,166
	<u>\$ 2,657</u>	<u>\$ 3,364</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.

6. Fixed Assets, net

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

	2025	2024
Vehicles	\$ -	\$ 65
Equipment	642	203
Office and computer equipment	262	262
	904	530
Accumulated depreciation	(583)	(422)
	<u>\$ 321</u>	<u>\$ 108</u>

Depreciation expense was \$0.2 million and \$0.06 million, for the years ended December 31, 2025 and 2024, respectively. Depreciation expense is primarily associated with the Company's equipment and vehicles.

The Company disposed a vehicle with a proceed of \$0.01 million and recorded a loss of disposal of \$0.01 during the year ended December 31, 2025. No gain or loss on disposal was recognized during the year ended December 31, 2024.

7. Accrued Expenses

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

	2025	2024
Employee benefits	\$ 387	\$ 220
Goods and services tax	29	155
Legal settlement	-	135
Sales and marketing	2,262	1,309
Other accruals	1,282	645
	<u>\$ 3,960</u>	<u>\$ 2,464</u>

8. Revolving Credit Facility and Loans

During the year ended December 31, 2024, the Company entered into a Revolving Financing and Assignment Agreement (the "RFAA") which provides a revolving credit facility up to an amount of \$2,000,000 (the "Total Credit Facility") with an interest rate equal to the prime rate plus 3.50% per annum, with a floor rate of 6.00%. This facility is intended to meet the working capital needs and general corporate purposes of the Company.

Under the RFAA, the Company may draw up to 80% of the face amount of eligible accounts receivable. The Company is required to pay a commitment fee of 1.00% of the Total Credit Facility annually, and a collateral management fee of 0.15% is assessed monthly on the Total Credit Facility.

The RFAA will expire under the following conditions: (a) 36 months from the initial funding date, or (b) 30 days following the execution of legal documents if the initial funding has not occurred, or (c) May 31, 2024, if neither condition (a) nor (b) applies. The agreement will automatically renew for additional 36-month periods unless terminated by either party with a minimum of 60 days' prior written notice.

The RFAA includes financial covenant requiring the Company to maintain net assets, excluding intangible assets and amounts outstanding under the RFAA, in excess of \$3.5 million. As of December 31, 2024, the Company was not in compliance with this financial covenant.

The revolving credit facility is secured by a continuing security interest in the Company's personal property and fixtures, including accounts receivable, inventory, equipment, and intellectual property.

On February 24, 2025, the Company made a payment of \$0.1 million to fully repay the Total Credit Facility and formally terminated the RFAA. Following this payment, the Company was released from any further liabilities under the terms of the RFAA.

As of December 31, 2025, the balance of the RFAA was \$nil (December 31, 2024 – \$0.3 million).

On February 5, 2025, the Company, through its Subsidiary, entered into a Loan Agreement with Two Shores (the “2Shores Loan Agreement”), pursuant to which the Subsidiary may borrow up to an aggregate maximum amount of \$5.0 million which was amended to \$10.0 million, subject to the satisfaction of certain conditions. On December 1, 2025, the Loan Agreement was amended to increase the maximum borrowing capacity to \$10.0 million. Advances under the Loan Agreement bear interest at a rate of 13.75% per annum. All present and future obligations of the Subsidiary under the Loan Agreement are secured by a first-priority security interest in all assets of the Company, the Subsidiary, and the Company’s other U.S. subsidiaries. As of December 31, 2025, the outstanding balance under the Loan Agreement, including accrued interest, was approximately \$3.02 million. The Company is obligated to provide periodic financial reporting, reporting of its inventory and accounts receivable listings, maintenance of its subsidiaries in good legal standing, maintenance of its insurance policies and payments of its tax obligations.

In connection with the Loan Agreement with Two Shores Capital Corp., the Company issued total 1,000,000 warrants to Two Shores Capital Corp., exercisable at a price of \$0.45 per share for a period of three years from the date of issuance. The Company estimated the fair value of the warrants at \$65,215 on the issuance date. This amount was recognized as finance costs in the consolidated statements of operations. The valuation of the warrants was performed using the Black-Scholes option pricing model, applying the following weighted-average assumptions:

• Stock price	\$0.20
• Risk free interest rate	3.91%
• Expected volatility	79%
• Expected life (in years)	3
• Expected dividend	nil

As of December 31, 2025, the balance of the 2Shores Loan Agreement was \$3 million (December 31, 2024 – \$nil).

9. Promissory Notes

On May 2, 2025, the Company entered into a Promissory Note (the “Note”) with the Chairman of the Board of the Company (the “Lender”) for a principal amount of \$0.45 million. The Note carries a fixed interest rate of 12% per annum and is payable monthly in arrears. The principal, together with accrued interest, is due and payable in full by October 10, 2025.

In addition to the principal and interest payments, the Company is required to pay a loan origination fee of \$22,000, which is due on the date of maturity. The Note permits the Company to make prepayments without penalty, provided there is no default in payment obligations.

During the year ended December 31, 2025, the Company recognized interest expense of \$0.02 million and repaid \$0.30 million on the Notes.

As of December 31, 2025, the outstanding balance of the Notes was \$0.2 million (December 31, 2024 – \$nil), which was fully settled subsequent to December 31, 2025.

10. Insurance Premium Financing

During the year ended December 31, 2025, the Company entered into various one-year financing agreements to fund a portion of its insurance premiums totaling \$0.2 million, payable through monthly installments. The applicable interest rates ranged from 6.49% to 8.99%, and the agreements did not contain any financial or non-financial covenants.

On November 15, 2024, the Company entered into a separate one-year financing agreement with IPFS Corporation to fund insurance premiums of \$0.2 million. Repayments were scheduled quarterly on January 15, 2025, April 15, 2025, and July 15, 2025, at which time the financing was fully repaid. The agreement bore interest at 8.99% and did not include any covenants.

As of December 31, 2025 and 2024, the outstanding balance related to insurance premium financing was \$0.2 million.

11. Membership Agreement Obligation

On September 1, 2022, the Company entered into a membership and licensing agreement with Saltbox Inc. that provides the Company with access to a shared office ("Suite") and warehouse facility located in Seattle, Washington. The agreement is structured as a revocable license granting access to the Suite and warehouse space. The relationship between Saltbox Inc. and the Company is that of licensor and licensee only, and not landlord-tenant or lessor-lessee. The agreement does not convey any right, title, interest, easement, or lien in Saltbox Inc.'s business, the Suite, the premises, or any related assets, and is not considered a lease for accounting purposes. Accordingly, no lease liability or right-of-use asset has been recognized in connection with this arrangement.

The initial term of the agreement was one year and required 12 monthly payments of \$8,000. Upon expiration of the initial term, the Company elected to renew the arrangement on a month-to-month basis at a monthly fee of \$9,000. On February 28, 2025, the Company provided notice of its intent to terminate the month-to-month arrangement after identifying lower-cost facilities.

12. Shareholders' Equity

Private Placement

The Company issued 7,535,000 units ("Units") on July 26, 2024, 1,600,000 Units on July 31, 2024, and 1,875,000 Units on August 21, 2024, for total net proceeds of \$3.6 million. Each Unit is composed of: (i) one common share in the capital of the Company (each, a "Common Share"); and (ii) one-half of one detachable share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant is exercisable into one Common Share (each, a "Warrant Share") at a price of \$0.50 per Warrant Share for a period of 24 months from the date of issuance. The Company has the right to accelerate the expiry date of the Warrants to the date that is 30 days following delivery of a notice of acceleration to holders of Warrants if, at any time, the closing price of the Common Shares exceeds \$0.80 for five consecutive trading days. The Warrants were classified as equity, and the Company recorded their fair value of \$1 million as part of common shares.

In connection with the offering, the Company paid Dominari Securities LLC ("Dominari") an aggregate of \$166,158 in cash commission, representing 4.0% of the aggregate gross proceeds raised in the offering, and issued Dominari an aggregate of 440,400 warrants as compensation for Dominari's services (the "Broker's Warrants"). For accounting purposes, the Company estimated the fair value of the Broker's Warrants at the grant date to be \$0.1 million, utilizing the Black-Scholes option pricing model. The assumptions used in the model included a risk-free interest rate of 3.81%, an expected life of 2 years, an expected volatility of 76%, and an expected dividend yield of 0%. The amount was recognized as share issuance costs.

Omnibus Equity Incentive Plan

On March 15, 2022, our Board adopted the 2022 Plan, which became effective upon approval by our shareholders on May 16, 2022. Under 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 of awards under the 2022 Plan. Additionally, the number of shares of the Company's common stock available reserved under the 2022 Plan is subject to an annual increase on the first day of each calendar year beginning with the first January 1 following the effective date of the 2022 Plan and ending with the last January 1 during the initial ten-year term of the 2022 Plan, equal to the lesser of (A) 4% of the shares of the Company's common stock outstanding (which shall include shares issuable upon the exercise or conversion of all outstanding securities or rights convertible into or exercisable for shares, including without limitation, preferred stock, warrants and employee options to purchase any shares) on the final day of the immediately preceding calendar year and (B) such lesser number of shares of common stock as determined by our Board. The Company may grant incentive stock options, non-statutory stock options, stock appreciation rights, restricted stock units and other stock-based awards to participants to acquire shares of Company common stock under the 2022 Plan. The 2022 Plan will be administered by the plan administrator (as defined in the 2022 Plan).

The Board may grant awards to employees, officers, directors, consultants, agents, advisors, and independent contractors. Stock options are issued at the closing price on the grant date and generally have a ten-year term. As of December 31, 2025, 2,056,158 shares remained available for future awards under the Plan.

a. Stock options:

A summary of our stock option activity for the years ended December 31, 2025 and 2024 is as follows:

	Outstanding Options			
	2025		2024	
	Number of Shares	Weighted Average Exercise Price (Per Share)	Number of Shares	Weighted Average Exercise Price (Per Share)
Opening	8,647,984	\$ 0.26	11,407,772	\$ 0.26
Granted	8,995,000	0.24	1,200,000	0.25
Exercised	-	-	(136,250)	0.27
Cancelled	(1,929,741)	0.24	-	-
Forfeited / Expired	(340,000)	0.23	(3,823,538)	0.25
Closing	15,373,243	\$ 0.25	8,647,984	\$ 0.26
Exercisable	5,426,951	\$ 0.27	5,963,812	\$ 0.27

The following table summarizes information about stock options outstanding and exercisable under our stock incentive plans as of December 31, 2025:

Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price Per Share
\$0.165 to \$0.25	8,260,379	8.53	0.19	2,327,004	6.74	0.21
\$0.251 to \$0.40	6,486,290	8.31	0.29	2,486,290	7.04	0.27
\$0.401 to \$0.55	437,500	5.29	0.49	425,520	5.26	0.49
\$0.551 to \$0.70	189,074	5.69	0.62	188,137	5.69	0.62
	15,373,243	8.31	0.25	5,426,951	6.73	0.27

b. Restricted stock awards:

Beginning May 13, 2022, the Company's Board of Directors determined that restricted stock units (RSUs) would be awarded as equity compensation for non-employee directors, replacing stock options, based on the recommendation of the Compensation and Governance Committee. RSUs vest incrementally per the award agreement, with certain awards vesting immediately upon a "Change in Control" as defined in the 2022 Plan.

Previously, from January 1, 2020, through February 15, 2022, non-employee directors received annual non-qualified stock option grants, which vested on the first anniversary of the grant date, subject to continued service. Grants were determined by dividing \$25,000 by the closing share price on the grant date. New directors joining the Board before February 15, 2022, received prorated stock option awards under similar terms. Stock option and RSU awards were governed by the 2011 Plan (prior to the 2022 Plan) and respective grant agreements.

On December 30, 2022, the Company entered into rescission agreements with certain non-employee directors and its Chief Executive Officer and President, rescinding and canceling all RSUs granted during 2022, including shares issued upon RSU vesting in August 2022, without consideration.

On July 16, 2025, the Company granted 2,213,765 RSUs to members of its Board of Directors. The aggregate grant-date fair value of the RSUs was \$0.4 million, determined in accordance with ASC 718, Compensation—Stock Compensation. Under the terms of the award, 50% of the RSUs vested immediately upon grant. The remaining 50% are scheduled to vest in equal installments on September 30, 2025 and December 31, 2025, subject to continued service.

During the year ended December 31, 2025, the Company issued 2,359,819 common shares to settle the vested RSUs.

As of December 31, 2025 and 2024, the Company had 553,439 and 699,493 vested RSUs outstanding, respectively. No RSUs remained unvested as of either December 31, 2025 or December 31, 2024.

A summary of our 2025 and 2024 restricted stock units activity is as follows:

	2025			2024		
	Number of Units	Weighted- Average Grant Date Fair Value per share	Weighted- Average Contractual Life (years)	Number of Units	Weighted- Average Grant Date Fair Value per share	Weighted- Average Contractual Life (years)
Opening, Unvested Restricted Stock Units	-	\$ -	-	600,000	\$ 0.26	9.1
Granted	2,213,765	0.18	-	2,797,959	0.14	-
Vested	(2,213,765)	(0.18)	-	(3,397,959)	(0.16)	-
Closing, Unvested Restricted Stock Units	-	\$ -	-	-	\$ -	-

Subsequent to December 31, 2025, the Company issued 553,439 common shares to settle the vested RSUs.

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.

As of December 31, 2025 and 2024, the Company had unrecognized compensation expense related to stock options of \$1.2 million and \$0.5 million, respectively, and related to RSUs of \$nil and \$nil, respectively. These amounts are expected to be recognized over the remaining vesting periods.

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

	2025	2024
Stock options	\$ 547	\$ 537
Restricted stock	400	541
	<u>\$ 947</u>	<u>\$ 1,078</u>
Consolidated Statements of Operations account:		
Selling and marketing	\$ 152	\$ -
General and administrative	795	1,078
	<u>\$ 947</u>	<u>\$ 1,078</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:

	2025	2024
Expected dividend yield	-	-
Expected stock price volatility	74.98% to 80.30%	85.90% to 89.60%
Risk-free interest rate	4.1% to 4.6%	4.20% to 4.30%
Expected term (in years)	10	5.80 to 6.50
Weighted-average grant date fair-value	\$ 0.15 to 0.22	\$ 0.17 to 0.20

During the year ended December 31, 2025 and 2024, no material modifications were made to outstanding stock options.

As of December 31, 2025, and December 31, 2024, the aggregate intrinsic value of stock options outstanding was \$0.8 million and \$0.01 million, respectively. For stock options exercisable, the aggregate intrinsic value as of December 31, 2025, and December 31, 2024 was also \$0.24 million and \$0.01 million, respectively. The intrinsic value of both outstanding and exercisable stock options is determined as the difference between the quoted market price of the Company's stock at the balance sheet date and the exercise price of the option.

The total intrinsic value of options exercised during the years ended December 31, 2025, and December 31, 2024, was \$nil and \$0.02 million, respectively. During these periods, the number of options exercised totalled nil and 136,250, respectively. The Company maintains a policy of issuing new shares upon the exercise of stock options.

d. Warrants

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.

During the year ended December 31, 2024, Pinestar Warrants in the amount of 974,808 were exercised at the exercise price of \$0.06 CAD, for total proceeds of \$44,000. As of December 31, 2024, there were no warrants outstanding.

Others:

As discussed in Note 8, during the year ended December 31, 2025, in connection with the Loan Agreement with Two Shores Capital Corp., the Company issued 1,000,000 warrants to Two Shores Capital Corp., exercisable at a price of \$0.45 per share for a period of three years from the date of issuance.

During the year ended December 31, 2024, the Company issued 5,505,000 warrants, each with an exercise price of \$0.50 per warrant, exercisable for a period of 24 months from the issuance date. Additionally, 440,400 broker's warrants were issued in connection with private placements completed during the year ended December 31, 2024.

As discussed in Note 3, on January 16, 2026, in connection with the Assignment and Assumption of Debt Agreement, the Company issued to Two Shores 550,000 common stock warrants, each exercisable for one share of the Company's common stock at an exercise price of \$0.40 per share and expiring on January 16, 2029.

The following table presents a summary of the Company's outstanding warrants as of December 31, 2025:

Expiry Date	Number Outstanding	Remaining Contractual Life (Years)	Exercise Price Per Share (in dollar)	Number Exercisable
July 26, 2026	3,767,500	0.57	\$ 0.50	3,767,500
July 31, 2026	800,000	0.58	0.50	800,000
August 21, 2026	1,377,900	0.64	0.50	1,377,900
May 30, 2028	750,000	2.41	0.45	750,000
August 5, 2028	250,000	2.60	0.45	250,000
	6,945,400			6,945,400

13. 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, 2025 and 2024 we did accrue and fund our employees' 401(k) accounts in 2025 and 2024 for matching contributions in the amount of \$33,284 and \$32,000, respectively.

14. Commitments and Contingencies

Commitments

As of December 31, 2025, we continue to have commitments to various suppliers of raw materials. Purchase obligations under these commitments are expected to total \$8.7 million.

Legal proceedings

The California Department of Public Health ("CDPH") issued a cease-and-desist letter to the sale and distribution of Mary Jones hemp infused sodas in California through Jones Soda's wholly owned subsidiary Mary Jones Michigan, LLC. The state alleged that the Company's products violated California law by failing to properly label the products and that the products contained hemp-derived THC isolate, which they did not. The Company disputed the CDPH position, however, it voluntarily agreed to cease distribution of its hemp infused soda in California. While CDPH requested additional information from the Company regarding the status of the recall for distributed products, the action appeared to be resolved by September 2024. In April 2025, shortly before the statute of limitations expired for any further action by CDPH relating to Mary Jones sodas, CDPH filed a Complaint, and on June 27, 2025, the CDPH filed an amended complaint, in Los Angeles Superior Court naming Jones Soda and other businesses who were involved in the sale of infused soda in California in the spring of 2024. On December 17, 2025, the California Department of Public Health filed a "Notice of Entry of Dismissal and Proof of Service" and we are waiting for the Judge to grant the dismissal.

The Company has been served with a lawsuit by a supplier on August 11, 2025 concerning an alleged breach of contract and unjust enrichment in the amount of \$342,373. The Company intends to file a counterclaim against the plaintiff for an amount in excess of the damages alleged in the complaint. The Company filed a motion to dismiss and on October 27, 2025, the United States Central District Court of California, the Court dismissed the action without prejudice.

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, other general liability claims and government and regulatory actions, 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.

15. Income Taxes

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

	2025	2024
Current		
State	\$ 3	\$ 3
Foreign	5	22
Provision for income taxes	\$ 8	\$ 25

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

	2025	2024
United States	\$ (1,540)	\$ (9,598)
Foreign	(140)	(121)
Total	\$ (1,680)	\$ (9,719)

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

	2025	2024
Federal statutory rate	21%	21%
Effect of:		
Permanent differences	18.13	(0.14)
Foreign taxes	0.23	-
Stock Compensation	-	(2.33)
True up	(4.98)	-
State income taxes, net of federal benefit	9.16	3.71
Change in valuation allowance	(42.97)	(24.19)
Other, net	(1.11)	1.52
Provision for income taxes	(0.54)%	(0.43)%

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):

	2025	2024
Federal and state net operating loss carryforwards	\$ 19,621	\$ 18,965
Stock-based compensation	408	303
Other, net	297	336
Total deferred tax asset	20,326	19,604
Valuation allowance	(20,326)	(19,604)
Net deferred tax asset	\$ -	\$ -

We continue to experience significant losses in our U.S. operations that are material to our decision to maintain a full valuation allowance against our net U.S. deferred tax assets. This is due to the fact that the relevant accounting guidance puts more weight on the negative objective evidence of cumulative losses in recent years than the positive subjective evidence of future projections of pretax income. For the years ended December 31, 2025 and December 31, 2024, the valuation allowance increased by \$0.7, and \$0.5, 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, 2025, we had net operating loss carryforwards for federal and state income tax purposes of \$54,865,311 and \$21,438,990 respectively, which expire at various times commencing 2026. We also had net operating loss carryforwards for federal and state income tax purposes of \$28,433,173, and \$3,094,477 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, 2025 and 2024.

We are no longer subject to U.S. Federal examination for tax years ending before 2021, to state examinations before 2020, or to foreign examinations before 2020.

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. As of December 31, 2025, 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.

16. Segment Information

Subsequent to the disposition of the Cannabis-Derived (THC) Beverages segment, the Company's only operating and reportable segment is beverages. This segment includes both Jones Soda's traditional craft sodas, known for their unique flavors, pure cane sugar formulation, and consumer-driven branding as well as our modern soda's such as Pop Jones, Fiesta Jones and hemp derived products such as HD9. The products are distributed through various channels, including retail stores, foodservice outlets, and direct-to-consumer platforms.

The Chief Operating Decision Maker ("CODM") of the Company, who is also the Chief Executive Officer ("CEO"), is responsible for evaluating the performance of the Company's operations. The evaluation focuses primarily on key financial metrics such as net operating revenues and operating income (loss). Based on this consolidated approach to assessing performance and allocating resources, the Company does not present additional segment information in its financial disclosures.

Furthermore, in accordance with ASC 280, the Company provides the following entity-wide disclosures for the year ended December 31, 2025 and 2024:

Net Sales by Geographic Location: The breakdown of the Company's net sales by geographic location are as follows:

(in thousands)	For the year ended	
	December 31, 2025	December 31, 2024
Segment Results – Net sales		
United States	\$ 22,473	\$ 14,713
Canada	2,830	3,080
Total	\$ 25,303	\$ 17,793

Net sales generated in the United States accounted for 89% and 83% of total revenue during the year ended December 31, 2025, and 2024, respectively.

Income (loss) from Operations by Geographic Location: The breakdown of the Company's income (loss) from operations by geographic location is as follows:

(in thousands)	For the year ended	
	December 31, 2025	December 31, 2024
Segment Results – Income (loss) from continuing operations		
United States	\$ (1,662)	\$ (9,606)
Canada	(26)	(138)
Total	\$ (1,688)	\$ (9,744)

Long-Lived Assets: All of the Company's long-lived assets are located in the United States.

17. Related party Transactions

As discussed in Note 9, on May 2, 2025, the Company issued the Note to the Chairman of the Board in the principal amount of \$0.45 million. The note bears interest at a fixed rate of 12% per annum, with interest payable monthly in arrears. The principal balance, together with any accrued but unpaid interest, is due and payable in full on October 10, 2025.

18. Subsequent Events

Subsequent to December 31, 2025:

As discussed in Note 3, on January 16, 2026, the Company entered into an Assignment and Assumption of Debt Agreement with Two Shores Capital Corp. ("Two Shores") and MJ Reg. Under the agreement, the Company assigned to Two Shores all of its rights, title, and interest in a promissory note with an outstanding principal balance of \$2.0 million in exchange for cash consideration of \$1.4 million. In connection with the transaction, the Company issued to Two Shores 550,000 common stock warrants, each exercisable for one share of the Company's common stock at an exercise price of \$0.40 per share and expiring on January 16, 2029.

As discussed in Note 9, the Company fully settled the Notes for total consideration of \$0.2 million.

As discussed in Note 12, the Company issued 553,439 common shares to settle the vested RSUs.