

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 and hemp infused beverages and syrups in several states. 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 and hemp infused beverages and syrups in several states through third party manufacturers and distributors. We plan to expand our cannabis and hemp product offerings and the states and provinces 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 sales in the health conscious modern soda market; 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, 2024 and 2023

	2024 (Dollars in thousands)	2023 (Dollars in thousands)	% Change
Revenue	\$ 19,155	\$ 16,669	14.91%
Cost of Goods Sold	(15,079)	(11,814)	27.64%
Gross Profit	4,076	4,855	(16.05%)
% of Revenue	21.28%	29.13%	

Net Revenue

For the year ended December 31, 2024, our net revenue was approximately \$19.2 million, representing an increase of \$2.5 million, or 14.9%, compared to approximately \$16.7 million in revenue for the year ended December 31, 2023. This growth in net sales revenue was primarily driven by a higher beverage segment sales volume of 15% growth year over year and 9% growth in our Cannabis (THC) business in the US and Canada. The percentage of our revenues generated in Canada for 2024 and 2023 was 18% and 18%, respectively.

For the year ended December 31, 2024, trade spending and promotional allowances, which reduced our gross revenue from product sales, totaled approximately \$4.1 million. This represents an increase of approximately \$2.5 million, or 156%, compared to approximately \$1.6 million for the year ended December 31, 2023. This increase was mainly attributable to promotional and pricing programs related to Mary Jones products and core Jones Soda sales in Canada, mostly due to the transition to a new distributor in Canada.

Gross Profit

For the year ended December 31, 2024, gross profit decreased by \$0.8 million, or 16.1%, to approximately \$4.1 million compared to approximately \$4.9 million for the year ended December 31, 2023, driven by one time inventory impairment charges of \$1.2 million in the fourth quarter of 2024 due to slow moving new products launched in 2024. The Company launched several innovative products in 2024, some of which have been slow moving in the Mary Jones (Adult Beverages market) and one in its Core soda business. As a result for the year ended December 31, 2024, gross margin decreased to 21.3% from 29.1% for the year ended December 31, 2023. The impairment charges discussed above reduced gross margin by 6.5% in 2024. The Company has subsequently rationalized its product set and is focused on smaller production runs on a focused product set for its core soda business, the modern soda category and the adult beverages category.

Selling and Marketing Expenses

Selling and marketing expenses for the year ended December 31, 2024, were approximately \$6.1 million, an increase of \$1.7 million, or 39.5%, from approximately \$4.4 million for the year ended December 31, 2023. This increase was primarily driven by higher online marketing expenditure for both the Jones Soda and Mary Jones brands. Additionally, we expanded our marketing initiatives with companies involved in action sports, including an agreement with Thrill One Sports & Entertainment, in the year ended December 31, 2024, which did not occur in the year ended December 31, 2023.

As a result, selling and marketing expenses as a percentage of revenue increased to 31.9% in the year ended December 31, 2024, from 26.3% in the year ended December 31, 2023. We intend to manage selling and marketing expenses with our working capital resources and it is a major management focus to reduce this % of revenue in the coming quarters.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2024 were approximately \$7.9 million, an increase of \$2.5 million, or 46.9%, compared to approximately \$5.4 million for the year ended December 31, 2023. This increase was primarily a result of increased legal and regulatory expenditures related to our Mary Jones business and the Litigation Matters. In addition, there was increased travel expenditures related to the development of a new supply chain and meeting with sponsorship partners. In February 2025, a confidential settlement agreement was entered into between all the parties to the Litigation Matters, which has resulted in the settlement and/or dismissal of both Litigation Matters. In addition, the Company is focused on reducing travel expenses in 2025. General and administrative expenses as a percentage of revenue increased to 41.1% for the year ended December 31, 2024, from 32.1% for the year ended December 31, 2023. We intend to carefully manage general and administrative expenses in line with our working capital resources and it is a major management focus to reduce this % of revenue in the coming quarters.

Other income (expense)

We earned approximately \$22,000 of interest income for the year ended December 31, 2024, compared to \$52,000 for the year ended December 31, 2023. We incurred \$11,000 in interest expenses for the year ended December 31, 2024 compared to nil for the year ended December 31, 2023.

Income Tax Expense

We had income tax expense of approximately \$25,000 and \$33,000 for the years ended December 31, 2024 and 2023, 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 overall consolidated pretax loss, state and foreign income taxes, 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, 2024 increased to approximately \$9.9 million from a net loss of \$4.9 million for the year ended December 31, 2023 or an increase of \$5 million. The majority of the increase in net loss in 2024 compared to 2023 was primarily driven by inventory impairment charges of \$1.2 million discussed above, increased sales and marketing expenditures of \$1.7 million and increased legal and travel costs of \$1.5 million. The Company is focused on tighter management of inventory, legal and sales and marketing expenditures in 2025.

Liquidity and Capital Resources

As of December 31, 2024 and 2023, we had cash and cash-equivalents of approximately \$1.5 million and \$3.9 million, respectively, and working capital of approximately \$2.0 million and \$7.2 million, respectively. Net cash used in operations during fiscal years 2024 and 2023 totaled approximately \$5.9 million and \$3.8 million, respectively. The \$2.3 million increase in cash used in operations in fiscal 2024, was driven by an increase in net loss after adjusting for non-cash items of \$3.7 compared to the prior year which was offset by an increase in cash generated from non cash working capital of \$1.7 million compared to the prior year. We incurred a net loss of approximately \$9.9 million for the year ended December 31, 2024 compared to a net loss of approximately \$4.9 million for the year ended December 31, 2023. Our accumulated deficit increased to \$92.9 million as of December 31, 2024 compared to an accumulated deficit of \$83.1 million as of December 31, 2023.

For the year ended December 31, 2024, net cash inflow from financing activities totaled approximately \$3.7 million, compared to a net cash outflow of \$0.2 million during the year ended December 31, 2023. During 2024, the Company completed a private placement offering, resulting in net cash proceeds of \$3.6 million (Note 7), net proceeds from the revolving credit facility of \$0.3 million and \$0.1 million proceeds received from the exercise of warrants and options. This was offset by repayment on the insurance financing agreement amounting to \$0.2 million and withholding taxes related to the RSUs of \$0.2 million. The cash outflow in 2023 was primarily due to repayments on our insurance financing agreement, partially offset by proceeds received from the exercise of outstanding warrants.

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, the Company recently changed its senior leadership and is focusing on reducing its operating expenses while bring products to market with higher margins and potentially higher customer demand. Additionally, on February 5, 2025, the Company, through a wholly-owned subsidiary (the "Subsidiary"), entered into loan agreement (the "Loan Agreement") with Two Shores Capital Corp, pursuant to which the Subsidiary may borrow a maximum aggregate amount of up to \$5,000,000, 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.

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.

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 and Estimates

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 statements 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.

Income Taxes

We establish income tax liabilities to remove some or all of the income tax benefit of any of our income tax positions based upon one of the following:

- the tax position is not “more likely than not” to be sustained,
- the tax position is “more likely than not” to be sustained, but for a lesser amount, or
- the tax position is “more likely than not” to be sustained, but not in the financial period in which the tax position was originally taken.

Our liability for uncertain tax positions contains uncertainties because management is required to make assumptions and to apply judgment to estimate the exposures associated with our various tax positions.

Our income tax returns, like those of most companies, are periodically audited by domestic and foreign tax authorities. These audits include questions regarding our tax positions, including the timing and amount of deductions and the allocation of income among various tax jurisdictions. As these audits progress, events may occur that cause us to change our liability for uncertain tax positions. To the extent we prevail in matters for which a liability for uncertain tax positions has been established, or are required to pay amounts in excess of our established liability, our effective tax rate in a given financial statement period could be materially affected. An unfavorable tax settlement generally would require use of our cash and may result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement may be recognized as a reduction in our effective tax rate in the period of resolution.

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

Not applicable.