

March 29, 2013

TO OUR STOCKHOLDERS

The calendar year 2012, our first full year of operations, has been a very productive and exciting year for The Pulse Beverage Corporation.

We launched our Cabana™ 100% Natural Lemonade in six low calorie and great tasting flavors. We have proven Cabana™ to be a commercially successful brand.

We expect Cabana™ to reach the annualized one million case threshold by the end of Q2-2013. This is a very meaningful accomplishment for us as well respected beverage publications generally report that it normally takes four to six years to reach the annualized one million case threshold for a new beverage brand. We will have attained that level of sales within two years of the Cabana™ product launch – a very notable accomplishment.

NBT take: one million+ case emerging beverage brands are worth \$100,000,000+ to the Global Beverage Giants...Coke/Pepsi/Dr.Pepper/7up

We have just begun the introduction of our flagship beverage brand PULSE® into our well-established diverse distribution system. We anticipate that our PULSE® brand of functional beverages will attain the annualized one million case threshold by the end of Q3 of 2014.

Key milestones achieved to date:

- We completed the product formulations and packaging design for our initial product, Cabana™ 100% Natural Lemonade. We completed the redesign and up-graded flavor profiles for our flagship PULSE® brand of functional beverages in three health platforms: Men's Health Formula, Women's Health Formula, and Heart Health Formula;
- We have completed product bottling contracts with three co-packers in strategic locations: Portland, Oregon, Marion, Virginia and Dallas, Texas;
- We have built a nation-wide diverse distribution system of over 90 distributors, servicing 43 States, Canada, Panama, Bermuda and Mexico;
- Once this "critical mass" of distributors was established, we then secured listings for Cabana™ with large regional and national grocery and convenience store chains, resulting in approved listings, to date, totaling over 11,000 retail outlets. We expect to add another 9,000 listings during the remainder of 2013, based on discussions we have underway.

NBT Take: 20,000 retail "doors" for Cabana™ means \$25-\$30 million in average sales at the wholesale level in 2014 at just 20% market penetration...average multiple for beverage companies is 4-5 times sales...which makes PLSB worth \$150 million on Cabana sales alone! THEN add one million cases of Pulse to the mix...\$250 million valuation is NOT far fetched...\$65 million market cap today.

The key to a successful beverage company is its ability to develop a critical mass nationwide diverse distribution system. In that regard, most of 2012 focused on the investment and establishment of such a distribution system using our Cabana™ 100% Natural Lemonade as our introductory product. Our distribution network includes over 80% of Class "A" distributors such as Anheuser Busch, Miller Coors, Pepsi, Coca-Cola and RC/7-Up.

We expect that PULSE will be operationally cash flow positive by end of Q2-2013 which is a key accomplishment for an emerging growth company launching two new beverage brands.

As an example of emerging beverage company growth history, Honest Tea, which was purchased by Coca-Cola in 2011 for a reported \$400 million, had only case sales of 1.4 million. The Honest Tea product was launched in 1998 and had sales of \$250,000 in its first year of operations. It took five years for Honest Tea to reach \$4.6 million in sales and nine years to reach \$13.5 million in sales.

It is our goal to achieve over \$20 million in sales in 2013 for PULSE® and Cabana™ combined which will be just our second full year of operations.

NBT Take: this sales volume is ALREADY in the bag...you sand baggers!

We are very pleased with our current financial situation. We presently have approximately 3.9 million in cash and approximately \$4.8 million in working capital and a working capital ratio in excess of 20 to 1.

For the year-ended December 31, 2012, our net loss, after adjustments to bring generally accepted accounting principles (GAAP) to adjusted net loss before corporation income taxes, depreciation and amortization, stock-based compensation and one-time charges (Adjusted EBITDA) was only \$1.7 million. This loss is relatively insignificant considering that 2012 was our first full year of operations and, for the most part, relates to our substantial investment into the establishment of our national diverse beverage distribution system which requires a tremendous amount of resources.

Most emerging-growth beverage companies incur significantly larger losses in the first few years of operation after product launches and do not reach the one million annualized case threshold until four to six years after a beverage product launch and most emerging growth beverage companies do not reach profitability until their fourth or fifth year of operations, if ever.

Number of Shareholders

As of March 29, 2013 there were 51,280,268 shares of our common stock issued and outstanding and approximately 3,000 shareholders. The transfer agent of our common stock is Holladay Stock Transfer, Inc. 2939 North 67th Place, Scottsdale, Arizona 85251

NBT Take: there will be little or no dilution from here except for warrant exercise of up to 19,000,000 more shares at .62 a share.

Our Business

We are based in Northglenn, Colorado and formed in 2010 by senior beverage industry veterans for the purpose of exploiting niche markets in the beverage industry. We developed two beverage products: Cabana™ 100% Natural Lemonade and PULSE® brand of functional beverages and now produce, market, sell and distribute these brands through a diverse regional and international distribution system.

Overview

Our mission is to be one of the market leaders in the development and marketing of nutritional/functional beverage products that provide real health benefits to a significant segment of the population and are convenient and appealing to consumers. We have an experienced management team of beverage industry executives that have successfully launched and/or managed the distribution for more than twenty-five major brands over the past twenty years. They have strong relationships with distributors and buyers who supply thousands of retail outlets, supermarkets and convenience stores.

Products

Our initial commercial product is Cabana™ 100% Natural Lemonade. Our second, flagship product is PULSE® brand of functional beverages (“PULSE®”) in three health platforms: PULSE® Heart Health Formula™, PULSE® Women’s Health Formula™, PULSE® Men’s Health Formula™. We presently manufacture, through co-packers, distribute and market both products.

In early 2011 we developed and then, on September 23, 2011, produced and distributed our Cabana™ 100% Natural Lemonade. We launched our lemonade product ahead of PULSE® in order to establish a comprehensive nationwide and international distribution system. Lemonades are widely considered to be an easily understood product as compared to a highly nutritional product such as PULSE® which requires more education at the distribution and retail level.

To ensure that the flavor profiles and nutritional platforms of our products meet the needs of consumers’ taste, health and life-style, we contract the services of Catalyst Development Inc. (“Catalyst”), a highly respected beverage product development firm located in Burnaby, BC, Canada. Catalyst developed the formulations for PULSE® under license, for Baxter Healthcare Corporation. Catalyst’s owner, Ron Kendrick, is our Chief of Product Development and Operations and oversees our beverage development, inventory supply chain, and quality assurance through his team of three. Our product development team has ensured PULSE® is a lower calorie, great tasting functional beverage that provides the benefits we claim on PULSE® labels. We use a hot-fill process of production to allow the PULSE® product to have all natural ingredients without the use of preservatives.

PULSE® brand of functional beverages (“PULSE®”)

PULSE® is formulated and aimed at specific health platforms, providing all natural functional ingredients without preservatives in a low calorie format. PULSE® offers consumers the nutrients they need in a 16oz glass bottle containing a great tasting functional beverage. Our packaging is vibrant and convenient and is water-based which gives rise to our trademark: “*PULSE: Nutrition Made Simple®*.” The nutrients contained in PULSE® are backed by research and are scientifically demonstrated to promote health in each targeted health platform. The nutritional ingredients were specifically selected to provide the nutrition necessary to achieve targeted health benefits using patented liposome nano-dispersion technology that introduces the ingredients into PULSE® in a format that allows the body to absorb the nutrients. We own all the formulations, rights and trademarks relating to the PULSE® brand of functional beverages and specifically we own the right to use the following Side Panel Statement for PULSE® Heart Health Formula™, PULSE® Women’s Health Formula™, PULSE® Men’s Health Formula™: “Formulation developed under license from Baxter Healthcare Corporation”. This right is in perpetuity without royalties. All PULSE® labels contain structure/function claims that are followed by an * disclosing the following disclaimer: This statement has not been evaluated by the Food and Drug Administration. This product is not intended to diagnose, treat, cure, or prevent any disease.

PULSE® is not an emerging growth beverage brand as it is a few years ahead in development due to significant development and test marketing costs spent by a major healthcare company several years prior.

PULSE® is comprised of five flavours in three functional health platforms:

PULSE® - Heart Health Formula™ contains safe and effective levels of a number of important heart and cardiovascular health friendly nutrients in a great tasting “Pear Peach” flavored beverage. It contains vitamin C and selenium, both of which are considered important nutrients to help maintain heart health. Heart Health Formula™ is an excellent source of soluble fiber which supports cardiovascular health and assists in buffering sugar response;

PULSE® - Men’s Health Formula™ is a unique combination of nutritional ingredients that include a variety of antioxidants that may reduce free radicals in our bodies. It is offered in two great tasting flavor profiles: stawberry/grapefruit and pomegranate/blackberry. Free radicals are generally associated with aging, cardiovascular problems, cancer and many health concerns for men. While it is designed to support health in particular areas, such as prostate health, the combination of green tea catechins, Vitamins E & C, lycopene and selenium may help men maintain an ongoing counter attack in the battle against free radical damage to our bodies;

PULSE® - Women's Health Formula™ is a convenient nutritional beverage designed specifically for women offered in two great tasting flavor profiles: blueberry and white grape/cucumber. Women's Health Formula™ contains meaningful levels of the key ingredients that work in concert to enhance bone health – calcium, magnesium and Vitamin D. Additionally, these ingredients coupled with folic acid and other B vitamins, may help women prepare for pregnancy while soy isoflavones may help buffer symptoms of menopause.

Target Market - PULSE® is targeted towards adults who want to feel young and healthful for the rest of their lives. PULSE® brand mission and concept is supported by a growing consumer link between nutrition and wellness and the ever growing need for convenient solutions to rehydrate and to combat obesity. This fact ensures that PULSE® does not just attract the "baby boomer" category but includes all consumers who want health conscious beverages.

Beverage Segment - Non-carbonated beverages divide into a number of categories including energy and sports drinks, teas, juices, lemonades, bottled water, and functional beverages. These beverage categories include a host of products that are fortified with vitamins, minerals and dietary supplements. PULSE® is targeted at the functional/nutritional beverage segment. Our goal is to evolve the functional/nutritional beverage category into more of a focus on providing true and meaningful health and wellness benefits in a convenient and good tasting format. Wise nutritional decisions make for better health. Better health makes for a better quality of longer life.

Market Environment – there is a societal shift away from carbonated, diet and high sugar-content beverages that contain artificial sweeteners and preservatives. PULSE® is supported by a growing consumer link between nutrition and wellness in convenient solutions. There is an emergence of new product categories in the area of energy and sports drinks, teas, juices, flavored waters, lemonades and functional/nutritional beverages. Populations are aging which influences the food and beverage industry, affecting everything from packaging and taste profiles to calories and contents.

Competitive Landscape

Glaceau Vitamin Water® - Numerous beverages/flavors, zero calories, mostly trace amounts of vitamins and elements.

Function® Drinks - Three beverages/seven flavors, emphasis on detox/weight loss/energy, various antioxidants, mostly trace amounts of vitamins and elements.

Neuro® - Eight beverages/formulations/flavors, lightly carbonated, proprietary blends and vitamins, small amounts of vitamins and elements.

POM Wonderful® - pomegranate based beverage with claims to have heart and other health benefits – FDA has requested they remove those claims from their labels.

Competitive Differentiators – PULSE® is proprietary formulated and scientifically effective in the recommended serving sizes as part of a daily health regimen. PULSE® formulas include functional ingredients that are widely considered to be critical to adult health including anti-oxidants, vitamins, minerals, soluble fiber and soy isoflavones. PULSE® uses patented liposome nano-dispersion technology that introduces the ingredients into the beverage in a format that allows the body to absorb the nutrients at a high rate.

Cabana™ 100% Natural Lemonade (“Cabana™”)

Cabana™ is a line-up of refreshing, all-natural, “good-for-you”, ready-to-drink lemonades in a 20oz glass bottle in six distinct and great tasting flavors: Regular Lemonade, Blueberry Lemonade, Cherry Lemonade, Strawberry Lemonade, Mango Lemonade and Island Spice Lemonade. Cabana™ offers reduced calories compared to our competitors, without the use of artificial sweeteners or coloring. There is only one other all-natural lemonade in the marketplace that is offered in a smaller 16oz glass format. We are positioning Cabana™ as natural complements to food in an effort to broaden its appeal. We believe that the lemonade market is well established and that there is an immediate demand in North America and internationally. Cabana™, being all-natural, lower calorie, and “good for you”, are in-line with our corporate mission to reach a large demographic by aiming to be the healthiest, all-natural lemonade in the marketplace.

Target Market - Cabana™ targets lemonade and fruit juice beverage drinkers of all ages, in particular the beverage consumers desiring a lower calorie, all natural, thirst quenching beverage for enjoyment and rehydration.

Beverage Segment - Non-carbonated beverages divide into a number of categories including energy and sports drinks, teas, juices, lemonades, bottled water, and functional beverages. **Cabana™** is targeted at the lemonade beverage segment.

Competitive Landscape

Simply Lemonade® - one flavor in a 13.5oz plastic bottle using natural lemon juice and high in calories.

Calypso® – many flavors, 20oz glass bottle, artificial coloring, high in calories, artificial sweeteners.

Arizona® Iced Tea – a lemonade/tea known as “Arnold Palmer” in a 24oz can.

Country Time Lemonade® - One flavor in a 12oz can, high in calories

Hubert's Lemonade® – all natural lemonade in a 16oz glass bottle.

Competitive Differentiators - Nationally, only a handful of companies market ready-to-drink lemonades and there is only one other major brand containing all natural ingredients: Hubert's Lemonade® in a smaller 16oz glass bottle. Cabana™ has competitive advantages over existing lemonade brands as follows: Cabana™ is offered in a large format 20oz glass bottle, has 55 calories per 8oz. serving compared to over 100 calories in most competitors and is made of 100% all natural ingredients. The fact that Cabana™ contains no preservatives or artificial sweeteners means that it can be sold in health food stores such as Whole Foods, GNC Live Well, Vitamin Cottage and Sunflower.

Business Value Drivers

We believe that the key value drivers of our business include the following:

Profitable Growth – We believe “functional”, “image-based” and/or “better-for-you” brands properly supported by marketing and innovation, targeted to a broad consumer base, drive profitable growth. We are focused on maintaining and improving profit margins and believe that tailored branding, packaging, pricing and distribution channel strategies help achieve profitable growth. We are implementing these strategies with a view to continuing profitable growth.

International market development – The development and profitable introduction of Cabana™ internationally together with the introduction, in April, 2013, of PULSE® remains a key value driver for our corporate growth.

Cost Management – The principal focus of cost management will continue to be on reducing input supply and production costs on a per-case basis, including raw material costs and co-packing fees. The reduction of accounts receivable and inventory days on hand also remains a further key area of focus.

Efficient Capital Structure – Our capital structure is intended to optimize our working capital to finance expansion, both domestically and internationally. We believe our strong capital position currently provides us with a competitive advantage.

We believe that, subject to increases in the costs of certain raw materials being contained, these value drivers, when properly implemented in the United States and internationally, will result in: (1) maintaining and increasing our product gross profit margins; (2) providing additional leverage over time through reduced expenses as a percentage of net operating revenues; and (3) optimizing our cost of capital. The ultimate measure of success is and will be reflected in our current and future results of operations.

Gross and net sales, gross profits, operating income, net income and net income per share represent key measurements of the above value drivers. These measurements will continue to be a key management focus in 2013. See “Results of Operations” for a complete discussion of our current and future business.

Growth Strategy

Our growth strategy includes:

- securing additional distributors in the United States and internationally;
- increasing brand awareness of PULSE® in 2013;
- securing additional chain, convenience and key account store listings for our products across United States and internationally;
- providing online shopping in 2013;
- expanding our PULSE® brand by developing new proprietary formulations;
- completing the development of a third branded product closely associated with the PULSE® health platforms; and
- obtaining a NASDAQ or NYSE MKT listing for our shares.

Keys to Success

The over-riding key to our short-term and long-term success is to obtain the necessary financing to: build our distribution network, increase inventory levels, increase sales of both beverage brands and to support resulting receivables. As of December 31, 2012, we had \$744,906 in cash and, as a result of an offering that we recently completed, as of March 29, 2013 we had in excess of \$3.9 million in cash, which is sufficient to finance our short-term and long-term growth strategy. This cash position allows us to rapidly grow both beverage products and support rapid growth in inventory and receivables.

Another key to our success is to continue development and expansion of our distribution network both in the United States and internationally, in particular Asia, and to continue to obtain chain store listings for our products. Management has the contacts to rapidly build such a distribution network and to continue to obtain chain store listings. We have distribution for Cabana™ in Canada, Mexico, Panama, Bermuda and 43 US states. A key to any successful beverage company is its ability to develop a critical-mass nationwide distribution system to support chain store distribution. In that regard, we spent 2012 focused on the establishment of a high quality extensive distribution system using Cabana™ as our introductory product and then, during the latter part of 2012, approached and secured listings with regional and national grocery and convenience chain stores. Currently we have obtained listings for Cabana™ in over 11,000 regional and national grocery and convenience chain stores. Our distribution network includes over 80% Class “A” distributors such as United Natural Foods, Inc. and distributors for Anheuser Busch, Miller Coors, Pepsi, Coca-Cola, RC/7-Up and Cadbury Schweppes.

Milestones

Milestones reached and building blocks set in place during 2012:

- we cost efficiently and methodically built a beverage company from the ground up and have overcome difficulties associated with start-up beverage companies relating to financing and product development and acceptance;
- we completed contracts with co-packers in three strategic locations: Oregon, Virginia and Texas, which has allowed us to produce and distribute our products nationwide cost efficiently;
- we have built a nationwide distribution system with 90+ distributors servicing 43 US states, Canada, Panama, Bermuda and Mexico. Once this “critical mass” of distributors was established we then approached, and secured listings for Cabana™, with large grocery and convenience store chains resulting in approved listings to date totaling over 11,000 retail outlets. We are starting to deliver Cabana™ to many of these retail outlets and increasing production of Cabana™ to deliver to all of these outlets during the remainder of Q1 2013 and into Q2 2013. We expect to add at least another 9,000 listings during the remainder of 2013 based on discussions we have underway;
- our distribution infrastructure has been developed without large capital outlays yet we have gained rapid market acceptance for our Cabana™ brand where taste, calories, and all natural ingredients, rather than price, are the major rationale for a consumer purchase;

- we completed the re-design and flavor profiles of PULSE® and completed our initial commercial production in February, 2013. The result from our product and flavor testing was that PULSE® nutritional claims held up and packaging and flavors were exceptional. Now that we have established a substantial portion of our distribution system, we will readily be able to introduce PULSE® into our existing distribution system through United Natural Food, Inc. and Nature's Best, the two largest natural food distributors. Existing distributors and chain stores have been made aware of the health benefits and introduction of PULSE®. Introduction to begin in April, 2013.

Industry Background

Non-alcoholic beverages are among the most widely distributed food products in the world and are being sold through more than 400,000 retailers in the United States, our core market. The United States has more than 2,600 beverage companies and 500 bottlers of beverage products. Collectively they account for more than \$100 billion in annual sales. It is estimated that globally more than \$300 billion worth of non-alcoholic beverages are sold annually. The beverage market is controlled by two giants, The Coca-Cola Company ("Coke") and PepsiCo, combining for over 70% of the non-alcoholic beverage market. Carbonated beverage sales are slipping, while non-carbonated beverage sales are growing. Experts predict that beverage companies that only offer carbonated beverages will have to work hard to off-set flagging demand. Industry watchers believe that growth will be largely confined to non-carbonated beverages and will chiefly affect functional drinks. Functional, sports and energy drinks are expected to be the principal beneficiaries of this trend.

Industry watchers are particularly confident about the prospect for drinks that are functional and that offer therapeutic benefit and as such capitalize on the public's growing interest in products that promise to improve health. Although we will face competition in our bid for market share, we believe, based on market research that our products, strong packaging, unique formulations and promotions will induce early trial and in the course of two years build a widespread and loyal following. We also believe that our products will have strong appeal in Europe and the Pacific Rim, in particular, China, a country with which we have long standing relationships. Key drivers of the Chinese beverage market include rising inflows of foreign direct investment, growing levels of consumer spending power, an increasingly health conscious consuming public and the Chinese government's market-focused economic policy. We believe our products will be accepted in China because of China's growing desire for healthy products and its growing middle class and its interest in brands that come from North America.

New Product Development

Our product philosophy will continue to be based on developing products in those segments of the market that offer the greatest chance of success such as health, wellness and natural refreshment and we will continue to seek out underserved market niches. We believe we can quickly respond, given our technical and marketing expertise, to changing market conditions with new and innovative products. We are committed to developing products that are distinct, meet a quantifiable need, are proprietary, lend themselves to at least a 30% gross profit, projects a quality and healthy image, and can be distributed through existing distribution channels. We are identifying brands of other companies with a view to acquiring them or taking on the exclusive distributorship of their products.

Intellectual Property

We acquired all of the property and equipment, formulations, rights and trademarks associated with PULSE® from Health Beverage, LLC pursuant to an Asset Purchase Agreement that closed on January 31, 2011.

We own the following intellectual property:

- the right from Baxter Healthcare Corporation to use the following side panel (label) statement for PULSE® Heart Health Formula™, PULSE® Women's Health Formula™, PULSE® Men's Health Formula™ : "PRODUCT FORMULATION DEVELOPED UNDER LICENSE FROM BAXTER HEALTHCARE CORPORATION";
- water-based beverage formulations, specifications, manufacturing methods and related Canadian and US unregistered trademark for PULSE® - Heart Health™; PULSE® - Women's Health™ and PULSE® - Men's Health™. These trademarks are current in that they are being used currently and will not expire as long as we continue to use them;
- registered trademarks: "PULSE" – USA & CANADA (a water-based beverage) U.S. No. 2698560, Canada: TMA 622,432 and "PULSE: NUTRITION MADE SIMPLE" – USA ONLY. U.S. No. 2819813. In general, trademark registrations expire 10 years from the filing date or registration date, with the exception in Canada, where trademark registrations expire 15 years from the registration date. All trademark registrations may be renewed for a nominal fee;
- the trademark Cabana™ in connection with our Cabana™ 100% Natural Lemonade.

We consider our trademarks, trade secrets and the license right described above to be of considerable value and importance to our business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR RESULTS OF OPERATIONS

The discussion that follows is derived from our audited balance sheets as of December 31, 2012 and 2011 and the audited statements of operations and cash flows for the years ended December 31, 2012 ("2012") and 2011 ("2011").

For the year ended December 31, 2012, our net loss, after adjustments to bring generally accepted accounting principles (GAAP) to adjusted net loss before corporation income taxes, depreciation and amortization, stock-based compensation and one-time charges (Adjusted EBITDA) was \$1,770,448. This loss was, for the most part, an investment in the establishment of our extensive distribution system. This loss is relatively low considering 2012 was our first full year of operations. Most emerging growth beverage companies incur significantly larger losses in the first few years of operations after commencing product launches and do not reach one million in annual case sales until the fourth year after product launch.

As an example, Honest Tea, which was sold to Coca-Cola in 2011 for a reported \$400 million, was launched in 1998 and had sales of \$250,000 in its first year of operation. It took five years for Honest Tea to reach \$4.6 million in sales and nine years to reach \$13.5 million in sales. When Coca-Cola purchased Honest Tea it was doing a reported 1.4 million in annual case sales.

We have been in operation with our first product, Cabana™ 100% Natural Lemonade, for just over one year and we expect to reach the annualized one million case sale threshold by the end of Q2 2013. We have generated significant operating revenue in a relatively short period of time on just over \$4 million of financing raised to December 31, 2012. Of the \$4 million in financing to that date we maintained working capital of just over \$1.4 million. These sales attainment levels within a relatively short period of time combined with marginal start-up losses reflects the fact that we have employed our existing capital well. During the Q1 of 2013 we raised an additional \$4.1 million in equity capital without incurring any debt, and, as at March 29, 2013 have approximately \$3.9 million in cash and \$4.8 million in working capital.

During April, 2013 we will begin the introduction of our flagship PULSE® product into our already well-established extensive distribution system. We anticipate that our PULSE® brand of functional beverages will attain the annualized one million case sale threshold in 2014.

Statement of Operations – GAAP adjusted to EBITDA

Our net loss for 2012 was \$3,505,783 or \$0.10 per share (2011 - \$914,758 or \$0.03 per share). Our loss has increased by \$2,591,025 due mainly to increases in non-cash items such as amortization and depreciation, stock-based compensation and asset impairment charges all increasing by \$1,647,450. The remaining increase in net loss of \$943,575 is mainly due to transitioning into a fully operational business from a development stage company prior to September 22, 2011. We planned increases in all expense categories. Under the metrics employed by management to evaluate the underlying business explained below, Adjusted EBITDA, that underlying loss was reduced by \$1,738,336 to \$1,770,448 or \$0.05 per share (2011 – reduced by \$90,886 to \$823,872 or \$0.00 per share). We define Adjusted EBITDA as operating income before depreciation, amortization of intangible assets, stock-based compensation, and impairment charges. We use Adjusted EBITDA to evaluate the underlying performance of our business, and a summary of Adjusted EBITDA, reconciling GAAP amounts (i.e., items reported in accordance with U.S. Generally Accepted Accounting Principles) to Adjusted EBITDA amounts (i.e., items included within Adjusted EBITDA as defined directly above) for the fiscal years ended December 31, 2012 and 2011 follows:

Year Ended December 31, 2012

	GAAP \$	Adjustments \$	Adjusted EBITDA \$
Net Sales	2,295,840		2,295,840
Cost of Sales	1,540,668		1,540,668
Gross Profit	755,172		755,172
Expenses			
Advertising, samples and displays	176,289		176,289
Freight-out	249,243		249,243
General and administration	802,294	(37,408)	764,886
Salaries and benefits and broker/agent's fees	887,857		887,857
Stock-based compensation (Note 11)	1,217,719	(1,217,719)	-
Shareholder, broker and investor relations	459,130		459,130
Total Operating Expenses	3,789,532	(1,255,127)	2,537,405
Net Loss Before Other Income	(3,034,360)	1,255,127	(1,782,233)
Other Income (Expense)			
Asset impairment	(483,209)	483,209	-
Forgiveness of debt	9,971		9,971
Interest income, net	1,814		1,814
Total Other Income (Expense)	(471,423)	483,209	11,785
Net Loss	(3,505,783)	1,738,336	(1,770,448)
Net Loss Per Share – Basic and Diluted	(\$0.10)	\$0.05	(\$0.05)

Year Ended December 31, 2011

	GAAP \$	Adjustments \$	Adjusted EBITDA \$
Net Sales	108,418		108,418
Cost of Sales	80,079		80,079
Gross Profit	28,339		28,339
Expenses			
Advertising, samples and displays	37,417		37,417
Freight-out	8,103		8,103
General and administration	461,898	(10,886)	451,012
Salaries and benefits and broker/agent's fees	280,742		280,742
Shareholder, broker and investor relations	116,806		116,806

Total Operating Expenses	904,966	(10,886)	894,080
Net Loss Before Other Income	(876,627)	10,886	(865,741)
Other Income (Expense)			
Asset impairment	(80,000)	80,000	-
Forgiveness of debt	36,018		36,018
Interest income, net	5,851		5,851
Total Other Income (Expense)	(38,131)	80,000	41,869
Net Loss	(914,758)	90,886	(823,872)
Net Loss Per Share – Basic and Diluted	(\$0.03)	\$0.00	(\$0.03)

Net Sales

Prior to September 23, 2011 we were a development stage company as we had no operating revenues. Production and sales of our Cabana™ 100% Natural Lemonade started on September 23, 2011 and since, as principal business activities have begun and we are generating significant revenues, we are no longer considered a development stage company. All of our growth is organic growth from sales of Cabana™. During 2011 and 2012 our product development team completed the re-design, testing and flavor profiles of PULSE® in three health platforms: *Men's Health Formula™*, *Women's Health Formula™*, and *Heart Health Formula™*. During February 2013 we completed our first commercial production of PULSE® at our Coppell, Texas co-packer and have begun shipping PULSE®, on a limited basis, into our distribution system.

Sales from PULSE® began in February, 2013. We expect 2013 revenues to be significantly higher than 2012 revenues due to regional and national chain and convenience store listings secured for Cabana™ and the rollout of PULSE® into many of the same stores. Recently, we secured world-wide distribution for Cabana™ and PULSE® through a key account. Our distribution system reached nationwide 'critical-mass' during the latter part of 2012. Centralized purchasing for large grocery and convenience store chains has resulted in the implementation of shelf-settings and product placements to Q1 of 2013. These factors allowed us to approach and secure listings for our Cabana™ from US national and regional grocery and convenience store chains. During the latter part of 2012 and to March 29, 2013 we have approached and secured listings with regional and national grocery and convenience chain stores, and have secured listings for Cabana™ in over 11,000 stores. We expect to add at least an additional 9,000 listings during the remainder of 2013 based on discussions we have underway. On a twelve month from delivery-to-store basis we estimate US Cabana™ case sales in excess of 2,500,000 and international Cabana™ case sales in excess of 500,000 based on secured and targeted listings to date.

We recognize revenue when delivery has occurred, the sales price is fixed and collectability is reasonably assured. Ownership and title of our products pass to customers upon delivery of the products to customers. We record revenues, net of sales discounts.

During 2012 our gross revenues, on sale of 226,869 cases (2011 – 9,670 cases) of Cabana™, before slotting fees and other promotional allowances, was \$2,503,566 (2011 - \$110,253), and net sales were \$2,295,840 (2011 - \$108,418) after slotting fees and other promotional allowances of \$205,726 (2011 - \$1,835). This increase in case sales and revenues was accomplished during, what is considered, the initial beverage company start-up and product roll-out phase indicating a strong brand and strong consumer acceptance of Cabana™. We expect gross sales, net sales and slotting fees and promotional allowances to increase due to large chain and convenience store listings secured for Cabana™ to date and expected to secure during 2013 for Cabana™ and PULSE®.

LIQUIDITY AND CAPITAL RESOURCES

Overview

During 2012 we increased our cash position from \$87,918 in 2011 to \$744,906 as of December 31, 2012. Subsequent to December 31, 2012 we received a further \$4.1 million pursuant to our \$0.40 Unit offering and as at March 29, 2013 we have approximately \$3.9 million in cash.

As at December 31, 2012, we had working capital of \$1,417,441 which included cash of \$744,906, customer accounts receivable of \$202,255, inventories of \$715,517 (including finished product of \$407,560, glass bottles of \$42,257 and other raw materials of \$265,700) and other current assets of \$101,842. We have no debt other than accounts payable of \$250,948 and accrued expenses of \$96,630. We have no long-term debt.

As at March 29, 2013 our working capital increased to more than \$4.8 million. We believe this working capital is sufficient to fund short-term operating losses, until we achieve profitability, and to fund the expected growth of inventory/accounts receivable due to expected 2013 case sale levels of our Cabana™ and PULSE® beverage products. We believe we have enough working capital to bring both products to profitability and we expect to be operationally cash flow positive and profitable during 2013.

During 2012 our net loss, after adjustments to bring GAAP to adjusted EBITDA as discussed above, was \$1,770,448. Our view of this loss is as an investment in our distribution system which, into 2013, allows us to distribute our product nationwide and into regional and national chain stores as well as internationally in Canada, Mexico, Panama and Bermuda. During 2012 we did not have the critical mass to secure chain store listings. It wasn't until the latter part of 2012 that we were in a position to obtain such listings for product to be delivered in early 2013. As at March 29, 2013 we have secured more than 11,000 chain store listings for Cabana™.

Additional Capital

We have in excess of \$4.8 million in working capital as at March 29, 2013, as such, we do not need additional capital to finance the growth of our operations. We also have in excess of 19,000,000 warrants outstanding at an average exercise price of \$0.62 per common share which could, if exercised, raise us in excess of \$12,000,000. We have no assurance, however, that we will ever see this additional money as the warrant holders must first choose to exercise their warrants.