

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES

EXHIBIT A

TO

OTCQX® ANNUAL DISCLOSURE STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2015

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES

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D'Arelli Pruzansky, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Celsius Holdings, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Celsius Holdings, Inc. and Subsidiaries as of December 31, 2015 and 2014 and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for each of the two years ended in the period December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Celsius Holdings, Inc. and Subsidiaries as of December 31, 2015 and 2014 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Certified Public Accountants

Boca Raton, Florida
March 24, 2016

Celsius Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

| | December 31, 2015 | December 31, 2014 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 10,128,320 | \$ 349,072 |
| Accounts receivable, net | 2,127,060 | 2,612,191 |
| Inventories, net | 2,322,904 | 1,686,935 |
| Prepaid expenses and other current assets | 666,267 | 259,056 |
| Total current assets | 15,244,551 | 4,907,254 |
| Property and equipment, net | 21,319 | 43,950 |
| Total Assets | \$ 15,265,870 | \$ 4,951,204 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,805,931 | \$ 828,049 |
| Accrued preferred dividend | 190,847 | 180,403 |
| Deferred revenue and other current liabilities | 25,057 | 356,602 |
| Total current liabilities | 2,021,835 | 1,365,054 |
| Long-term liabilities: | | |
| Convertible note payable - related party | - | 1,500,000 |
| Line of credit note payable-related party | 4,500,000 | 9,250,000 |
| Total Liabilities | 6,521,835 | 12,115,054 |
| Stockholders' Equity (Deficit): | | |
| Preferred Stock, \$0.001 par value; 2,500,000 shares authorized, 6,380 and 2,200 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively | 6 | 2 |
| Common stock, \$0.001 par value; 75,000,000 shares authorized, 38,380,380 and 20,459,032 shares issued and outstanding at December 31, 2015 and December 31, 2014, respectively | 38,380 | 20,459 |
| Additional paid-in capital | 58,626,212 | 40,165,955 |
| Accumulated deficit | (49,920,563) | (47,350,266) |
| Total Stockholders' Equity (Deficit) | 8,744,035 | (7,163,850) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 15,265,870 | \$ 4,951,204 |

The accompanying notes are an integral part of these consolidated financial statements

Celsius Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations

| | For the year | |
|--|------------------------------|------------------------------|
| | ended December 31, | |
| | 2015 | 2014 |
| Revenue | \$ 17,217,944 | \$ 14,610,090 |
| Cost of revenue | <u>10,177,986</u> | <u>9,011,923</u> |
| Gross profit | <u>7,039,958</u> | <u>5,598,167</u> |
| | | |
| Selling and marketing expenses | 5,701,845 | 4,823,014 |
| General and administrative expenses | <u>3,165,573</u> | <u>2,305,086</u> |
| Total operating expense | <u>8,867,418</u> | <u>7,128,100</u> |
| | | |
| Loss from operations | (1,827,460) | (1,529,933) |
| | | |
| Other Income (Expense): | | |
| Interest expense | <u>(322,344)</u> | <u>(497,203)</u> |
| Total Other Income (Expense) | <u>(322,344)</u> | <u>(497,203)</u> |
| | | |
| Net Loss | (2,149,804) | (2,027,136) |
| Preferred stock dividend - beneficial conversion feature | (139,535) | |
| Preferred stock dividend - other | <u>(280,958)</u> | <u>(133,836)</u> |
| Net Loss available to common stockholders | \$ <u><u>(2,570,297)</u></u> | \$ <u><u>(2,160,972)</u></u> |
| | | |
| Weighted average shares outstanding | <u>33,175,826</u> | <u>20,392,594</u> |
| Loss per share, basic and diluted | \$ <u><u>(0.07)</u></u> | \$ <u><u>(0.10)</u></u> |

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statements of Changes in Stockholders' Equity (Deficit)
For the Years Ended December 31, 2015 and 2014

| | Preferred Stock | | Common Stock | | Additional | Accumulated | Total |
|--|-----------------|--------|--------------|-----------|--------------------|--------------|----------------|
| | Shares | Amount | Shares | Amount | Paid-In Capital | Deficit | |
| Balance at December 31, 2013 | 2,200 | \$ 2 | 20,179,032 | \$ 20,179 | \$ 39,263,208 | (45,189,294) | \$ (5,905,905) |
| Issuance of common stock in exchange of service | | | 280,000 | 280 | 215,820 | | 216,100 |
| Stock option expense | | | | | 686,927 | | 686,927 |
| Preferred stock dividend | | | | | | (133,836) | (133,836) |
| Net loss | | | | | | (2,027,136) | (2,027,136) |
| Balance at December 31, 2014 | 2,200 | 2 | 20,459,032 | 20,459 | 40,165,955 | (47,350,266) | (7,163,850) |
| Issuance of preferred stock in exchange of note | 4,000 | 4 | | | 3,999,996 | | 4,000,000 |
| Issuance of preferred stock in exchange of accrued dividend | 180 | 0.18 | | | 180,000 | | 180,000 |
| Issuance of common stock upon conversion of convertible note | | | 5,000,000 | 5,000 | 1,495,000 | | 1,500,000 |
| Issuance of common stock pursuant to private placement | | | 12,921,348 | 12,921 | 11,375,238 | | 11,388,159 |
| Stock option expense | | | | | 1,270,488 | | 1,270,488 |
| Preferred stock dividend - beneficial conversion feature | | | | | 139,535 | (139,535) | - |
| Preferred stock dividend - other | | | | | | (280,958) | (280,958) |
| Net loss | | | | | | (2,149,804) | (2,149,804) |
| Balance at December 31, 2015 | 6,380 | \$ 6 | 38,380,380 | \$ 38,380 | \$ 58,626,212 | (49,920,563) | \$ 8,744,035 |

The accompanying notes are an integral part of these consolidated financial statements

Celsius Holdings, Inc. and Subsidiaries
Consolidated Statements of Cash Flows

| | For the year ended | |
|---|----------------------|----------------------|
| | December 31, 2015 | December 31, 2014 |
| Cash flows from operating activities: | | |
| Net Loss available to common stockholders | \$ (2,570,297) | \$ (2,160,972) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 33,043 | 37,256 |
| Stock-based compensation expense | 1,270,488 | 903,027 |
| Preferred stock dividend –beneficial conversion feature | 139,535 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | 485,131 | (1,120,641) |
| Inventory | (635,969) | (865,664) |
| Prepaid expenses and other current assets | (313,942) | 258,338 |
| Accounts payable and accrued expenses | 1,168,400 | 121,828 |
| Deposits/deferred revenue and other current liabilities | (331,544) | (92,389) |
| Net cash used in operating activities | (755,155) | (2,919,217) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (10,412) | (12,493) |
| Net cash (used in) investing activities | (10,412) | (12,493) |
| Cash flows from financing activities: | | |
| Borrowing under revolving note payable, related-party | 450,000 | 3,150,000 |
| Repayment on short term notes payable, related-party | (1,200,000) | - |
| Net proceeds from sale of common stock | 11,388,084 | - |
| Payments on short term notes payable | (93,269) | (91,124) |
| Net cash provided by financing activities | 10,544,815 | 3,058,876 |
| Net increase in cash and cash equivalents | 9,779,248 | 127,166 |
| Cash and cash equivalents at beginning of the year | 349,072 | 221,906 |
| Cash and cash equivalents at end of the year | \$ 10,128,320 | \$ 349,072 |
| Supplemental disclosures: | | |
| Cash paid during period for: | | |
| Interest | \$ 401,808 | \$ 460,589 |
| Taxes | \$ - | \$ - |
| Non-cash investing and financing activities: | | |
| Borrowing under short term notes payable for prepaid expense | \$ 93,269 | \$ 91,124 |
| Accrued preferred dividends | \$ 280,958 | \$ 133,836 |
| Preferred stock issued in exchange for cancellation of revolving note payable - related party | \$ 4,000,000 | \$ - |
| Conversion of convertible note to common shares - related party | \$ 1,500,000 | \$ - |
| Conversion of accrued preferred dividend into preferred shares - related party | \$ 180,000 | \$ - |

The accompanying notes are an integral part of these consolidated financial statements

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Business — Celsius Holdings, Inc. (the “Company” or “Celsius Holdings”) was incorporated under the laws of the State of Nevada on April 26, 2005. On January 24, 2007, the Company entered into a merger agreement and plan of reorganization with Elite FX, Inc., a Florida corporation. Under the terms of the Merger Agreement, Elite FX, Inc. was merged into the Company’s subsidiary, Celsius, Inc. and became a wholly-owned subsidiary of the Company on January 26, 2007. In addition, on March 28, 2007 the Company established Celsius Netshipments, Inc. a Florida corporation as a wholly-owned subsidiary of the Company.

Since the merger, the Company is engaged in the development, marketing, sale and distribution of “functional” calorie-burning fitness beverages under the Celsius® brand name.

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”).

Consolidation Policy — The accompanying consolidated financial statements include the accounts of Celsius Holdings, Inc. and its subsidiaries. All material inter-company balances and transactions have been eliminated in consolidation.

Significant Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Significant estimates include the allowance for doubtful accounts, reserves for inventory obsolescence, the useful lives and values of property, fixtures and equipment, valuation of stock based compensation, and deferred tax asset valuation allowance.

Concentrations of Risk — Substantially all of the Company’s revenue derives from the sale of Celsius ® beverages.

The Company uses single supplier relationships for its raw materials purchases and filling capacity, which potentially subjects the Company to a concentration of business risk. If these suppliers had operational problems or ceased making product available to the Company, operations could be adversely affected.

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company places its cash and cash equivalents with high-quality financial institutions. At times, balances in the Company’s cash accounts may exceed the Federal Deposit Insurance Corporation limit. At December 31, 2015 the Company had approximately \$10.0 million in excess of the Federal Deposit Insurance Corporation limit.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

At December 31, 2015 and 2014, the Company had the following 10 percent or greater concentrations of revenue with its customers:

| | <u>2015</u> | <u>2014</u> |
|-----------|---------------|---------------|
| A* | 48.3% | 49.8% |
| B | 9.1% | 10.0% |
| All other | <u>42.6%</u> | <u>40.2%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

At December 31, 2015 and 2014, the Company had the following 10 percent or greater concentrations of accounts receivable with its customers:

| | <u>2015</u> | <u>2014</u> |
|-----------|---------------|---------------|
| A* | 50.0% | 68.0% |
| B | 11.8% | 8.5% |
| All other | <u>38.2%</u> | <u>23.5%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

*Revenues and receivables from customer A are derived from a distributor located in Sweden.

Cash Equivalents — The Company considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents. At December 31, 2015 and December 31, 2014, the Company did not have any investments with maturities of three months or less.

Accounts Receivable — Accounts receivable are reported at net realizable value. The Company establishes an allowance for doubtful accounts based upon factors pertaining to the credit risk of specific customers, historical trends, and other information. Delinquent accounts are written-off when it is determined that the amounts are uncollectible. At December 31, 2015 and December 31, 2014, there was an allowance for doubtful accounts of \$3,500 and \$3,500, respectively.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories — Inventories include only the purchase cost and are stated at the lower of cost or market. Cost is determined using the FIFO method. Inventories consist of raw materials and finished products. The Company reserved against inventory during the period in which such materials and products are no longer usable or marketable. In 2015 and 2014, the Company recorded a reserve of \$329,075 and \$30,059, respectively. The changes in reserve are included in cost of revenue. Free Samples are recorded as cost of sales.

Property and Equipment — Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful life of the asset generally ranging from three to seven years.

Impairment of Long-Lived Assets — In accordance with ASC Topic 360, “Property, Plant, and Equipment” the Company reviews the carrying value of intangibles and other long-lived assets for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by comparison of its carrying amount to the undiscounted cash flows that the asset or asset group is expected to generate. 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 property, if any, exceeds its fair value.

Revenue Recognition — Revenue is derived from the sale of beverages. Revenue is recognized when persuasive evidence of an agreement exists, the products are delivered, sales price is fixed or determinable, and collectability is reasonably assured. Any discounts, slotting fees, sales incentives or similar arrangements with the customer are estimated at time of sale and deducted from revenue.

Deferred Revenue — From time to time the Company requires prepayments for deposits in advance of delivery of products and/or production runs. Such amounts are initially recorded as deferred revenue. The Company recognizes such revenue as it is earned in accordance with revenue recognition policies.

Advertising Costs — Advertising costs are expensed as incurred. The Company uses mainly radio, local sampling events, sponsorships, endorsements, and digital advertising. The Company incurred advertising expense of approximately \$3.2 million and \$2.2 million, during year ending December 31, 2015 and 2014, respectively.

Research and Development — Research and development costs are charged to operations as incurred and consist primarily of consulting fees, raw material usage and test productions of beverages. The Company incurred expenses of \$71,166 and \$25,510 during year ending December 31, 2015 and 2014, respectively.

Fair Value of Financial Instruments — The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and notes payable approximates fair value due to their relative short-term maturity and market interest rates.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
December 31, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements - ASC 820 defines 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. Additionally, ASC 820 requires the use of valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. These inputs are prioritized below:

Level 1: Observable inputs such as quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs for which there is little or no market data, which require the use of the reporting entity's own assumptions.

The Company did not have any assets or liabilities measured at fair value at December 31, 2015 and December 31, 2014.

Income Taxes — The Company accounts for income taxes pursuant to the provisions of ASC 740-10, "Accounting for Income Taxes," which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized. The Company follows the provisions of the ASC 740 -10 related to, *Accounting for Uncertain Income Tax Positions*. When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Celsius Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015

3. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued) — Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all highly certain of being upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25 *Definition of Settlement*, which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion of an examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open.

The Company files its tax returns on a fiscal year September 30th tax year. The Company's tax returns for tax years ended September 30, 2015 (although not yet filed), 2014, 2013, and 2012 remain subject to potential examination by the taxing authorities.

Earnings per Share — Basic earnings per share are calculated by dividing net income (loss) available to stockholders by the weighted-average number of common shares outstanding during each period. Diluted earnings per share are computed using the weighted average number of common and dilutive common share equivalents outstanding during the period. Dilutive common share equivalents consist of shares issuable upon conversion of convertible debt, exercise of stock options and warrants (calculated using the reverse treasury stock method). As of December 31, 2015 there were options outstanding to purchase 4.6 million shares, which exercise price averaged \$0.80, Series C Preferred Stock warrants outstanding to convert to 4.6 million common shares at \$0.52 price per share and Series D Preferred Stock warrants outstanding to convert to 4.7 million common shares at \$0.86 price per share. There were no other dilutive common shares equivalents, including convertible notes and warrants, as no common share equivalents had an exercise price below the ending closing price of the year. The effects of dilutive instruments have not been presented as the effects would be anti-dilutive.

Celsius Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-Based Payments — Effective January 1, 2006, the Company has fully adopted the provisions of ASC Topic 718 “Compensation — Stock Compensation” and related interpretations. As such, compensation cost is measured on the date of grant at the fair value of the share-based payments. Such compensation amounts, if any, are amortized over the respective vesting periods of the grants. On April 30, 2015, the Company adopted the 2015 Stock Incentive Plan. This plan is intended to provide incentives which will attract and retain highly competent persons at all levels as employees of the Company, as well as independent contractors providing consulting or advisory services to the Company, by providing them opportunities to acquire the Company's common stock or to receive monetary payments based on the value of such shares pursuant to Awards issued. The 2015 Plan permits the grant of options and shares for up to 5,000,000 shares. In addition, there is a provision for an annual increase of 15% to the shares included under the plan, with the shares to be added on the first day of each calendar year, beginning on January 1, 2016.

Shipping and Handling Costs — Shipping and handling costs for freight expense on goods shipped are included in cost of sales. Freight expense on goods shipped for year ended December 31, 2015 and 2014 was \$1,161,088 and 1,007,054, respectively.

Recent Accounting Pronouncements

The Company adopts all applicable, new accounting pronouncements as of the specified effective dates.

In September 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* (“ASU 2015-16”). ASU 2015-16 simplifies the accounting for adjustments made to provisional amounts recognized in a business combination by requiring the acquirer to (i) recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined, (ii) record, in the same period, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date, and (iii) present separately or disclose the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company is evaluating the impact of the adoption of ASU 2015-16 on January 1, 2016 to its consolidated financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability (consistent with debt discounts).

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2015

2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (continued)

In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting)* (“ASU 2015-15”). ASU 2015-15 allows debt issuance costs related to line-of-credit agreements to be presented in the balance sheet as an asset. ASU 2015-03 and ASU 2015-15 are effective for fiscal years, and interim periods within, beginning after December 15, 2015. Early adoption is permitted. The Company plans to early adopt ASU 2015-03 and ASU 2015-15 as of December 31, 2015; the adoption is not expected to have a material impact on its consolidated financial position or results of operations.

All new accounting pronouncements issued but not yet effective are not expected to have a material impact on our results of operations, cash flows or financial position.

Liquidity — These financial statements have been prepared assuming the Company will be able to continue as a going concern. At December 31, 2015, the Company had an accumulated deficit of \$49,920,563 which includes a net loss available to common stockholders of \$2,570,297 for year ended December 31, 2015. While these factors alone may raise doubt as to the Company’s ability to continue as a going concern, the Company’s sale of common stock to an investor group on April 20, 2015 for a total of \$11.5 million is deemed sufficient to alleviate substantial doubt regarding the Company’s ability to continue as a going concern.

3. INVENTORIES

Inventories consist of the following at:

| | December 31, <u>2015</u> | December 31, <u>2014</u> |
|-------------------------------|-------------------------------------|-------------------------------------|
| Finished goods..... | \$2,309,288 | \$1,570,201 |
| Raw Materials..... | 342,691 | 146,793 |
| Less: Inventory Reserve | <u>(329,075)</u> | <u>(30,059)</u> |
| Inventories, net | <u>\$ 2,322,904</u> | <u>\$ 1,686,935</u> |

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

December 31, 2015

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets total \$666,267 and \$259,056, at December 31, 2015 and December 31, 2014, respectively, and consist mainly of prepaid consulting agreement with D3M Licensing Group, advertising, prepaid insurance, prepaid slotting fees, deposits on purchases, and customer deposits.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at:

| | December 31, 2015 | December 31, 2014 |
|--------------------------------------|------------------------------|------------------------------|
| Furniture and equipment | \$ 264,495 | \$ 254,083 |
| Less: accumulated depreciation | <u>(243,176)</u> | <u>(210,133)</u> |
| Total | <u><u>\$ 21,319</u></u> | <u><u>\$ 43,950</u></u> |

Depreciation expense amounted to \$33,043 and \$37,256 during year ended December 31, 2015 and 2014, respectively

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at:

| | December 31, 2015 | December 31, 2014 |
|------------------------|------------------------------|------------------------------|
| Accounts payable | \$ 1,207,353 | \$ 360,062 |
| Accrued expenses | <u>598,578</u> | <u>467,987</u> |
| Total | <u><u>\$ 1,805,931</u></u> | <u><u>\$ 828,049</u></u> |

Celsius Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015

7. DEFERRED REVENUE AND OTHER CURRENT LIABILITIES

Deferred revenue and other current liabilities consist of the following at:

| | December 31, | December 31, |
|-----------------------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Customer deposits | \$ 13,063 | \$ 351,716 |
| State bottle bill liability | 11,994 | 4,886 |
| Total | \$ 25,057 | \$ 356,602 |

8. LINE OF CREDIT NOTE PAYABLE - RELATED PARTIES

Line of credit note payable - related parties consists of the following as of:

| | December 31, | December 31, |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| Note Payable – line of credit | | |
| In July 2010, the Company entered into a line of credit note payable with a related party which carries interest of five percent per annum. The Company can borrow up to \$4,500,000. The Company has pledged all of its assets as security for the line of credit. The notes mature in January 2020, at which time the principal amount is due. During April 2015, the Company issued \$4,000,000 of convertible series D preferred series in exchange for cancellation of \$4,000,000 of this line. | | |
| Long-term portion | \$ 4,500,000 | \$ 9,250,000 |

9. CONVERTIBLE NOTE PAYABLE - RELATED PARTIES

| | December 31, | December 31, |
|---|---------------------|---------------------|
| | 2015 | 2014 |
| Convertible note payable | | |
| Convertible note payable, related party | \$0 | \$1,500,000 |

In September 2009, the Company entered into a convertible note payable with a related party, a majority shareholder which carries interest at six percent per annum. The outstanding balance is convertible into the Company's common stock at a conversion price of \$0.30 per share. The Company is obligated to file a registration statement upon written notice from the creditor and such registration statement must be effective within 180 days of the date of notice. If after the 180 days the Company has not complied with the agreement it shall pay \$65,000 per month in penalty, until the registration statement is effective.

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9. CONVERTIBLE NOTE PAYABLE - RELATED PARTIES (CONTINUED)

The note matures in December 2016, at which time the principal amount is due. In April 2015, the note holder converted the outstanding portion of \$1,500,000, into shares of common stock in accordance with the conversion terms of the agreement. The creditor also terminated all registration rights and waived any penalties that might have been incurred in connection therewith. The outstanding balance on the loan as of December 31, 2015 and December 31, 2014 was \$0 and \$1,500,000, respectively.

10. PREFERRED STOCK – RELATED PARTY

On August 26, 2013, the Company entered into a securities purchase agreement (the “2013 Purchase Agreement”) with CDS Ventures of South Florida, LLC (“CDS”) and CD Financial, LLC (“CD”). CDS and CD are limited liability companies which are affiliates of Carl DeSantis, the Company’s principal shareholder. The Company issued 2,200 shares of its Series C Preferred Stock (the “Preferred C Shares”) in exchange for the conversion of a \$550,000 short term loan from CDS and the conversion of \$1,650,000 in indebtedness under the Company’s line of credit with CD (the “CD Line of Credit”). The Preferred C Shares can be converted into Company common stock at any time until December 31, 2018 at a conversion price of \$0.52 per share. The conversion price per share is based on the weighted average of the ten daily VWAPs for the 10 trading days immediately preceding the closing date of August 26, 2013. The Preferred C Shares accrue a 6% annual cumulative dividend, payable in additional Preferred C Shares. The Preferred C Shares are mandatorily redeemable on December 31, 2018 and are redeemable only in shares of the Company’s common stock. In April 2015, the Company issued 180 Preferred C Shares valued at \$180,000 in settlement of \$180,000 in accrued preferred C dividends. As of December 31, 2015, \$139,736 of dividends has been accrued. The Preferred C Shares mature on December 31, 2018 and are redeemable only in exchange for shares of Company common stock.

On April 16, 2015, the Company entered into an amendment to its existing Loan and Security Agreement (the “Amendment”) with CD an affiliate of CDS Ventures and Mr. DeSantis. Pursuant to the Amendment, the outstanding principal amount of the CD Line of Credit was reduced by \$4.0 million, which amount was converted into 4,000 shares of a newly-designated Series D Preferred Stock (the “Preferred D Shares”). This related party was given a conversion price of \$0.86 per common share, whereas other investors purchased common shares at \$0.89 in the private placement, as discussed in note 12. The difference of \$0.03 per share, which resulted in \$139,535, was recorded as a dividend in accordance with ASC 470-20-35, subsequent measurement for debt with conversion and other options. The Preferred D Shares can be converted into Company common stock at any time until the expiration date of the line of credit in 2020 or its earlier satisfaction in full, at a conversion price of \$0.86 per share. The Preferred D Shares accrue a 5% annual cumulative cash dividend, payable quarterly and accords the holders thereof voting rights on an “as converted” basis. As of December 31, 2015, \$51,111 of dividends has been accrued regarding these shares.

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11. RELATED PARTY TRANSACTIONS

The Company's office is rented from a company affiliated with CD which is controlled by our majority shareholder Carl DeSantis. Currently, the lease expires on October 2020 with monthly rent of \$6,408. The rental fee is commensurate with other properties available in the market.

In April 2015, the Company entered into a strategic marketing and advisory services agreement with All Def Digital. Tim Leissner, a director and shareholder of the Company is also a director and shareholder in All Def Digital. As of December 31, 2015, the Company has paid All Def Digital \$237,959, for services relating to the strategic marketing and advisory services agreement.

Other related party transactions are discussed in notes 8, 9, and 10,

12. STOCKHOLDERS' EQUITY (DEFICIT)

Issuance of common stock pursuant to services performed

During 2014, the Company issued a total of 280,000 unregistered shares as compensation in connection with celebrity endorsement agreements at an aggregate fair value of \$216,100, 250,000 shares were issued at \$0.79 per share on March 11th, 2014 and 30,000 shares were issued at \$0.62 per share on August 13th, 2014, with each per share valuation representing the closing stock price on the day of issuance.

Issuance of common stock pursuant to conversion of note

In April 2015, the Company issued 5,000,000 unregistered common shares upon conversion of \$1,500,000 of convertible notes, at contractual terms.

Issuance of common stock pursuant to private placement

In April 2015, the Company issued a total of 12,921,348 shares of common stock at \$0.89 per share for gross proceeds of \$11.5 million (see note 10). Expenses incurred of \$111,841 were charged to additional paid in capital and the Company received net proceeds of \$11,388,159.

Issuance of preferred stock pursuant to private placement

Refer to note 10 for discussion on preferred stock issuances.

13. INCOME TAXES

Due to recurring losses for book and tax purposes, for the years ended December 31, 2015 and 2014, the Company's net tax provision was zero.

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13. INCOME TAXES (CONTINUED)

The difference between the effective income tax rate and the applicable statutory federal income tax rate is summarized as follows:

| | <u>2015</u> | <u>2014</u> |
|--|--------------|--------------|
| Statutory federal rate | (35.0%) | (35.0%) |
| State income tax rate, net of federal benefit..... | (3.5%) | (3.5%) |
| Permanent differences, including stock based compensation..... | 25.3% | 18.5% |
| Change in valuation allowance | <u>13.5%</u> | <u>20.0%</u> |
| Effective tax rate | <u>0.0%</u> | <u>0.0%</u> |

At December 31, 2015 and 2014, the Company's deferred tax assets were as follows:

| Deferred Tax Assets | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Net operating loss carry forwards..... | 16,029,000 | 16,303,000 |
| Less: Valuation allowance net deferred tax assets | <u>(16,029,000)</u> | <u>(16,303,000)</u> |
| Net deferred tax assets | <u>0.0</u> | <u>0.0</u> |

Due to taxable income before net operating loss carryforwards during tax year ending in 2015, the valuation allowance decreased by approximately \$274,000 in 2015. Total net operating loss carry forwards at December 31, 2015 were approximately \$41.6 million. The losses, if unused, expire through 2035. The Company's net operating loss carry forwards may be limited due to ownership changes pursuant to Internal Revenue Code section 382.

14. STOCK-BASED COMPENSATION

The Company adopted an Incentive Stock Plan on January 18, 2007. This plan is intended to provide incentives which will attract and retain highly competent persons at all levels as employees of the Company, as well as independent contractors providing consulting or advisory services to the Company, by providing them opportunities to acquire the Company's common stock or to receive monetary payments based on the value of such shares pursuant to Awards issued. While the plan terminates 10 years after the adoption date, issued options have their own schedule of termination. During 2013 the majority of the shareholders approved to increase the total available shares in the

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14. STOCK-BASED COMPENSATION (CONTINUED)

plan from 2.5 million to 3.5 million shares of common stock. During May 2014, the majority of the shareholders approved to increase the total available shares in the plan from 3.5 million to 4.25 million shares of common stock, during February 2015, the majority of the shareholders approved to increase the total available shares in the plan from 4.25 million to 4.6 million shares of common stock and during April 2015, the majority of the shareholders approved to increase the total available shares in the plan from 4.6 million to 5.1 million shares of common stock. Until 2017, options to acquire shares of common stock may be granted at no less than fair market value on the date of grant. Upon exercise, shares of new common stock are issued by the Company.

The Company adopted the 2015 Stock Incentive Plan on April 30, 2015. This plan is intended to provide incentives which will attract and retain highly competent persons at all levels as employees of the Company, as well as independent contractors providing consulting or advisory services to the Company, by providing them opportunities to acquire the Company's common stock or to receive monetary payments based on the value of such shares pursuant to Awards issued. The 2015 Plan permits the grant of options and shares for up to 5,000,000 shares. In addition, there is a provision for an annual increase of 15% to the shares included under the plan, with the shares to be added on the first day of each calendar year, beginning on January 1, 2016.

Cumulatively since inception, the Company has issued options to purchase approximately 4.6 million shares at an average price of \$0.81 with a fair value of \$5.3 million. For the year 2015 and 2014, the Company issued options to purchase 1.3 million and 1.4 million shares. For the year ended December 31, 2015 and 2014, the Company recognized an expense of \$1,270,488 and \$686,927, respectively, of non-cash compensation expense (included in General and Administrative expense in the accompanying Consolidated Statement of Operations) determined by application of a Black Scholes option pricing model with the following inputs: exercise price, dividend yields, risk-free interest rate, and expected annual volatility. As of December 31, 2015, the Company had approximately \$742,000 of unrecognized pre-tax non-cash compensation expense, which the Company expects to recognize, based on a weighted-average period of 0.5 years. The Company used straight-line amortization of compensation expense over the two to three year requisite service or vesting period of the grant. There are options to purchase approximately 4.3 million shares that have vested, of which 267,000 shares were exercised as of December 31, 2015.

The Company uses the Black-Scholes option-pricing model to estimate the fair value of its stock option awards and warrant issuances. The calculation of the fair value of the awards using the Black - Scholes option-pricing model is affected by the Company's stock price on the date of grant as well as assumptions regarding the following:

| | Year ended December 31, | |
|-------------------------|--------------------------------|---------------|
| | 2015 | 2014 |
| Expected volatility | 306% | 172% - 328% |
| Expected term | 4 Years | 3 - 5 Years |
| Risk-free interest rate | 0.89% | 0.91% - 1.69% |
| Forfeiture Rate | 0.00% | 0.00% |
| Expected dividend yield | 0.00% | 0.00% |

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14. STOCK-BASED COMPENSATION (CONTINUED)

The expected volatility was determined with reference to the historical volatility of the Company's stock. The Company uses historical data to estimate option exercise and employee termination within the valuation model. The expected term of options granted represents the period of time that options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate in effect at the time of grant.

A summary of the status of the Company's outstanding stock options as of December 31, 2015 and changes during the period ending on that date is as follows:

| | Shares | Weighted Average | | Aggregate Intrinsic Value | Weighted Average Remaining Term (Yrs) |
|----------------------------------|--------|------------------|------------|---------------------------|---------------------------------------|
| | | Exercise Price | Fair Value | | |
| Options | | | | | |
| At December 31, 2013 | 2,374 | \$ 0.44 | \$ 0.33 | \$ 366 | 8.5 |
| Granted | 1,417 | 0.78 | 0.56 | | |
| Exercised | | | | | |
| Forfeiture and cancelled | (295) | 0.42 | 0.38 | | |
| At December 31, 2014 | 3,496 | \$ 0.49 | \$ 0.41 | \$ 588 | 6.5 |
| Granted | 1,306 | 1.61 | 0.33 | | |
| Exercised | | | | | |
| Forfeiture and cancelled | (168) | 0.52 | 0.38 | | |
| At December 31, 2015 | 4,634 | \$ 0.81 | \$ 0.41 | \$ 5,300 | 5.49 |
| Exercisable at December 31, 2015 | 4,056 | \$ 0.73 | \$ 1.21 | \$ 477 | 6.1 |

The following table summarizes information about employee stock options outstanding at December 31, 2015:

| Range of Exercise Price | Outstanding Options | | | Vested Options | | |
|-------------------------|---|----------------------------------|----------------------------------|---|----------------------------------|----------------------------------|
| | Number Outstanding at December 31, 2015 (000's) | Weighted Averaged Remaining Life | Weighted Averaged Exercise Price | Number Exercisable at December 31, 2015 (000's) | Weighted Averaged Exercise Price | Weighted Averaged Remaining Life |
| \$0.20 - \$0.42 | 2,522 | 5.90 | \$ 0.26 | 2,495 | \$ 0.26 | 5.96 |
| \$0.53 - \$1.42 | 1,431 | 5.37 | \$ 0.87 | 1,009 | \$ 0.80 | 7.61 |
| \$1.80 - \$3.80 | 637 | 4.30 | \$ 2.29 | 509 | \$ 2.26 | 5.39 |
| \$4.25 - \$9.40 | 30 | 3.89 | \$ 5.57 | 30 | 5.57 | 3.89 |
| \$10.80 - \$22.00 | 14 | 2.78 | \$ 14.87 | 14 | \$ 14.87 | 2.78 |
| Outstanding options | 4,634 | 5.49 | \$ 0.81 | 2,707 | \$ 0.55 | 6.28 |

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15. COMMITMENTS AND CONTINGENCIES

The Company has entered into distribution agreements with liquidated damages in case the Company cancels the distribution agreements without cause. Cause has been defined in various ways. It is management's belief that no such agreement has created any liability as of December 31, 2015.

The Company entered into an office lease with a related party (see note 11) effective October 2015. The monthly rent amounts to \$6,408 per month and the lease terminates in October 2020. Future annual minimum payments required under operating lease obligations at December 31, 2015 are as follows:

Future Minimum Lease Payments

| | |
|--------------------|------------------|
| 2016..... | \$77,803 |
| 2017..... | \$82,792 |
| 2018..... | \$85,276 |
| 2019..... | \$87,834 |
| 2020..... | \$75,016 |
| Total | \$408,721 |

16. SUBSEQUENT EVENTS

We have evaluated events and transactions that occurred subsequent to December 31, 2015 through March 24, 2016, the date these financial statements were issued, for potential recognition or disclosure in the accompanying financial statements. We did not identify any events or transactions that should be recognized or disclosed in the accompanying financial statements.