

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES
EXHIBIT A
TO
OTCQX® QUARTERLY DISCLOSURE STATEMENT
FOR THE QUARTER ENDED MARCH 31, 2016

CONSOLIDATED FINANCIAL STATEMENTS

CELSIUS HOLDINGS, INC. AND SUBSIDIARIES

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Celsius Holdings, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2016 (Unaudited)	December 31, 2015 (1)
ASSETS		
Current assets:		
Cash	\$ 9,234,675	\$ 10,128,320
Accounts receivable, net	1,698,357	2,127,060
Inventories, net	2,553,672	2,322,904
Prepaid expenses and other current assets	993,135	666,267
Total current assets	<u>14,479,839</u>	<u>15,244,551</u>
Property and equipment, net	24,333	21,319
Total Assets	<u>\$ 14,504,172</u>	<u>\$ 15,265,870</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,842,161	\$ 1,805,931
Accrued preferred dividend	226,389	190,847
Deferred revenue and other current liabilities	224,081	25,057
Total current liabilities	<u>2,292,631</u>	<u>2,021,835</u>
Long-term liabilities:		
Line of credit note payable-related party	4,500,000	4,500,000
Total Liabilities	<u>6,792,631</u>	<u>6,521,835</u>
Stockholders' Equity:		
Preferred Stock, \$0.001 par value; 2,500,000 shares authorized, 6,380 and 6,380 shares issued and outstanding at March 31, 2016 and December 31, 2015	6	6
Common stock, \$0.001 par value; 75,000,000 shares authorized, 38,380,380 shares issued and outstanding at March 31, 2016 and December 31, 2015	38,380	38,380
Additional paid-in capital	58,880,927	58,626,212
Accumulated deficit	(51,207,772)	(49,920,563)
Total Stockholders' Equity	<u>7,711,541</u>	<u>8,744,035</u>
Total Liabilities and Stockholders' Equity	<u>\$ 14,504,172</u>	<u>\$ 15,265,870</u>

(1) Derived from Audited Financial Statements

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

Celsius Holdings, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the three months ended March 31,	
	2016	2015
Revenue	\$ 3,678,606	\$ 4,649,026
Cost of revenue	2,158,742	2,810,425
Gross profit	<u>1,519,864</u>	<u>1,838,601</u>
Selling and marketing expenses	1,788,268	898,490
General and administrative expenses	875,278	562,235
Total operating expense	<u>2,663,546</u>	<u>1,460,725</u>
Income (Loss) from operations	(1,143,682)	377,876
Other Income (Expense):		
Interest expense	(56,875)	(132,169)
Total Other Income (Expense)	<u>(56,875)</u>	<u>(132,169)</u>
Net Income (Loss)	(1,200,557)	245,707
Preferred stock dividend	(86,652)	(33,001)
Net Income (Loss) available to common stockholders	<u>\$ (1,287,209)</u>	<u>\$ 212,706</u>
Income (Loss) per share:		
Basic	\$ (0.03)	\$ 0.01
Diluted	\$ (0.03)	\$ 0.01
Weighted average shares outstanding:		
Basic	<u>38,380,380</u>	<u>20,459,032</u>
Diluted	<u>38,380,380</u>	<u>31,569,411</u>

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

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

	For the three months ended	
	March 31, 2016	March 31, 2015
Cash flows from operating activities:		
Net Income (Loss) available to common stockholders	\$ (1,287,209)	\$ 212,706
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	3,394	9,118
Stock-based compensation expense	254,715	172,274
Changes in operating assets and liabilities:		
Accounts receivable, net	428,703	204,788
Inventory	(230,768)	236,735
Prepaid expenses and other current assets	(326,868)	(562,979)
Accounts payable and accrued expenses	71,772	456,394
Deferred revenue and other current liabilities	199,024	72,204
Net cash provided by (used in) in operating activities	<u>(887,237)</u>	<u>801,240</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(6,408)</u>	<u>-</u>
Net cash (used in) investing activities	<u>(6,408)</u>	<u>-</u>
Cash flows from financing activities:		
Repayment on short term notes payable, related-party	-	(900,000)
Payments on short term notes payable	<u>-</u>	<u>(17,316)</u>
Net cash (used in) financing activities	<u>-</u>	<u>(917,316)</u>
Net decrease in cash and cash equivalents	(893,645)	(116,076)
Cash at beginning of the period	<u>10,128,320</u>	<u>349,072</u>
Cash at end of the period	\$ <u>9,234,675</u>	\$ <u>232,996</u>
Supplemental disclosures:		
Cash paid during period for:		
Interest	\$ <u>56,875</u>	\$ <u>132,169</u>
Income Taxes	\$ <u>-</u>	\$ <u>-</u>
Non-cash investing and financing activities:		
Borrowing under short term notes payable for prepaid expense	\$ <u>-</u>	\$ <u>91,099</u>
Accrued preferred dividends	\$ <u>86,652</u>	\$ <u>33,001</u>

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

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

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 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 accounts receivable. The Company places its cash with high-quality financial institutions. At times, balances in the Company’s cash accounts may exceed the Federal Deposit Insurance Corporation limit. At March 31, 2016 the Company had approximately \$9.0 million in excess of the Federal Deposit Insurance Corporation limit but has incurred no losses with respect to there accounts.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

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

At March 31, 2016 and 2015, the Company had the following 10 percent or greater concentrations of revenue with its customers:

	<u>2016</u>	<u>2015</u>
A*	27.2%	67.5%
B	11.5%	1.0%
All other	<u>61.3%</u>	<u>31.5%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

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

	<u>2016</u>	<u>2015</u>
A*	31.0%	50.0%
B	11.2%	11.8%
All other	<u>57.8%</u>	<u>38.2%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></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 March 31, 2016 and December 31, 2015, 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 March 31, 2016 and December 31, 2015, there was an allowance for doubtful accounts of \$3,500.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

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 March 31, 2016 and December 31, 2015, the Company recorded a reserve of \$350,757 and \$329,075, respectively. The changes in reserve are included in cost of revenue. Free Samples are also recorded as cost of revenue.

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 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 \$0.9 million and \$0.4 million during the three months ending March 31, 2016 and 2015, 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 there expenses of \$11,910 and \$359 during the three months ending March 31, 2016 and 2015, 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 (unaudited)
March 31, 2016

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 March 31, 2016 and December 31, 2015.

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.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2016

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, 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 common 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 March 31, 2016 there were options outstanding to purchase 5.6 million shares, which exercise price averaged \$1.00, 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 for the three months ended March 31, 2016, as the effects would be anti-dilutive.

Notes to Consolidated Financial Statements (unaudited)

March 31, 2016

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 5,147,000 shares. In addition, there is a provision for an annual increase of 15% of the issued shares under the plan 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. On January 1st, 2016, the permitted number of available option grants increased 147,000 (see also note 12).

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 three months ended March 31, 2016 and 2015 was \$408,488 and \$225,130, 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.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

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

Recent Accounting Pronouncements (continued)

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).

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 has adopted 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 March 31, 2016, the Company had an accumulated deficit of \$51,207,772 which includes a net loss available to common stockholders of \$1,287,209 for the three months ended March 31, 2016. While these factors alone may raise doubt as to the Company’s ability to continue as a going concern, the proceeds remaining from the Company’s sale of common stock to an investor group on April 20, 2015 for a total of \$11.5 million (see note 11) 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:

	March 31, 2016	December 31, 2015
Finished goods.....	\$2,334,962	\$2,309,288
Raw Materials	569,467	342,691
Less: Inventory Reserve	(350,757)	(329,075)
Inventories, net	<u>\$ 2,553,672</u>	<u>\$ 2,322,904</u>

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets total \$993,135 and \$666,267, at March 31, 2016 and December 31, 2015, 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:

	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Furniture and equipment	\$ 270,903	\$ 264,495
Less: accumulated depreciation	<u>(246,570)</u>	<u>(243,176)</u>
Total	<u><u>\$ 24,333</u></u>	<u><u>\$ 21,319</u></u>

Depreciation expense amounted to \$3,394 and \$9,118 during the three months ended March 31, 2016 and 2015, respectively

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following at:

	<u>March 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Accounts payable	\$ 1,253,192	\$ 1,207,353
Accrued expenses	<u>588,969</u>	<u>598,578</u>
Total	<u><u>\$ 1,842,161</u></u>	<u><u>\$ 1,805,931</u></u>

Celsius Holdings, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (unaudited)

March 31, 2016

7. DEFERRED REVENUE AND OTHER CURRENT LIABILITIES

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

	March 31, 2016	December 31, 2015
Customer deposits	\$ 220,542	\$ 13,063
State bottle bill liability	3,539	11,994
Total	<u>\$ 224,081</u>	<u>\$ 25,057</u>

8. LINE OF CREDIT NOTE PAYABLE - RELATED PARTIES

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

	March 31, 2016	December 31, 2015
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	<u>\$ 4,500,000</u>	<u>\$ 4,500,000</u>

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

9. 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 March 31, 2016, \$175,833 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 March 31, 2016, \$50,556 of dividends has been accrued regarding these shares.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2016

10. RELATED PARTY TRANSACTIONS

The Company's office is rented from a company affiliated with CD which is controlled by our majority shareholder Carl DeSantis (see note 13). 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. For the three months ending as of March 31, 2016, the Company has paid All Def Digital \$82,438, for services relating to the strategic marketing and advisory services agreement.

Other related party transactions are discussed in notes 8 and 9.

11. STOCKHOLDERS' EQUITY (DEFICIT)

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 2). 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 9 for discussion on preferred stock issuances.

Celsius Holdings, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (unaudited)
March 31, 2015

12. 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 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 5,147,000 shares. In addition, there is a provision for an annual increase of 15% of the issued shares under the plan 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. On January 1st, 2016, the permitted number of available option grants increased 147,000 (see also note 2).

Cumulatively since inception, the Company has issued options to purchase approximately 5.6 million shares at an average price of \$1.00 with a fair value of \$1.1 million. For the three months ended March 31, 2016 and 2015, the Company recognized an expense of \$254,715 and \$172,274, 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 March 31, 2016, the Company had approximately \$2,361,716 of unrecognized pre-tax non-cash compensation expense, which the Company expects to recognize, based on a weighted-average period of 3 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 1.1 million shares that have vested, of which 267,000 shares were exercised as of March 31, 2016.

Celsius Holdings, Inc. and Subsidiaries
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12. STOCK-BASED COMPENSATION (CONTINUED)

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:

	Three months ended March 31,	
	2016	2015
Expected volatility	309%	306%
Expected term	4 Years	4 Years
Risk-free interest rate	0.89%	0.91% - 1.69%
Forfeiture Rate	0.00%	0.00%
Expected dividend yield	0.00%	0.00%

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 March 31, 2016 and changes during the period ending on that date is as follows:

Options	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Average Remaining Term (Yrs)
Balance at December 31, 2015	4,634,166	\$ 0.81	\$ 5,346,349	5.49
Granted	958,500	\$ 1.96		
Exercised	-	-		
Forfeiture and cancelled	-	-		
At March 31, 2016	5,592,666	\$ 1.00	\$ 1,060,472	6.22
Exercisable at March 31, 2016	1,105,562	\$ 1.40		

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13. 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 March 31, 2016.

The Company entered into an office lease with a related party (see note 10) 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 March 31, 2016 are as follows:

Future Minimum Lease Payments

2016.....	\$57,672
2017.....	\$82,792
2018.....	\$85,276
2019.....	\$87,834
2020.....	\$75,016
Total	<u>\$388,590</u>

14. SUBSEQUENT EVENTS

We have evaluated events and transactions that occurred subsequent to March 31, 2016 through May 11, 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.