

RESONATE BLENDS INC. (OTCQB: KOAN)

BUSINESS DESCRIPTION

Based in Calabasas, California, Resonate Blends Inc. is a cannabis holding company that utilizes advanced science as well as a deep understanding of cannabinoids, terpenes and their interactions, in order to create precisely calibrated experiences. The company has formulated and recently commercially launched a series of lifestyle and wellness-enhancing products that are designed to offer specific, controllable, and repeatable beneficial effects. The company believes the creation of value-added brands will drive enhanced value in the cannabis industry.

Resonate Blends is led by a team that has worked together over a long period of time, and the company has invested, both organically and through partnerships, in the development of value-driving properties across its business to support its commercial launch strategy. These initiatives span technology and product development, quality control, marketing and branding, manufacturing, assembly and packaging, and distribution supply chain resources, as well as rigorous financial performance, investment banking and investor relations. In our view, this breadth of core competencies should help Resonate avoid some of the missteps that have hampered other companies during the continued evolution of the cannabis industry.

The Resonate System is designed to help demystify cannabis, make it understandable and accessible, so that intentional users can knowledgeably select cannabis products that support their lifestyles. The basis of the Resonate System is a deep understanding of plant science, and the intricate interconnections between the components and their physiological and emotional properties. This research is the foundation for a series of products designed to provide cannabis users with a consistent and reliable effect with every use, and to match its customers' desired experience. The testing has spanned multiple demographics and cannabis usage histories in order to fine-tune product properties and experiences. As well, Resonate Blends uses only plant-derived ingredients, including cannabinoids, terpenes, and other medicinal herbs. There are no additives and, as a result, all components have an FDA "GRAS" designation.

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KEY STATISTICS

Key Stock Statistics

Recent price (6/21/22)	\$0.10
52 week high/low	\$0.52-\$0.07
Shares outstanding (M)	48
Market cap (M)	5
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	10.9%

Financials (\$M, as of 3/31/22)

Cash & Mkt Securities	0.2
Debt	2.4
Working Capital (\$M)	-3.3
Current Ratio	0.1
Total Debt/Equity (%)	NM
Payout ratio	NM
Revenue (M) TTM	NM
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	1.76
Inst. ownership	0%

Valuation

P/E forward EPS	NA
Price/Sales (TTM)	NA
Price/Book (TTM)	NA

Top Holders

NA
NA
NA

Management

CEO	Mr. Geoff Selzer
COO	Ms. Pam Kerwin
CIO	Mr. David Thielen
Company website	www.resonateblends.com

PRICE CHART



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Resonate’s commercial product portfolio consists of a patent-pending family of precisely targeted effect blends called Koan Cordials. Koan Cordials are emulsified, water-soluble formulas that are bottled individually in artistically designed packaging. Each 10ml serving can be used as a tincture, shot, or mixed in a drink. The seven Koan products contain a different mix of ingredients to elicit a certain and reliable experience, ranging from the Calm product (which contains 1 milligram of THC, and is below the psychoactive threshold) to the Wonder product (which contains 9 milligrams of THC). In between these dosages are products labeled as Balance, Create, Play, Delight and, most recently, Love. A formulation for Sleep is currently in production.

To date, Koan Cordials are sold as three-packs for each product. We expect the product to be sold in new packaging options, including single packages and multi-serving bottles during 2022, with production is currently underway. We think these new options should reduce the cost of sampling, allow for more-aggressive promotions, and encourage consumer trials and adoption of the broader product portfolio. The upcoming multi-serving bottles will reduce cost per serving to accommodate the needs of frequent users and allow customers more control over their product usage, while enabling the company to begin to more cost-effectively package and deliver its products.

In March 2022, Resonate Blends announced that it is developing a new line of edibles that will mirror the consistency of experience in the Koan Cordials line. We think that should help solve an industry pain point from the edibles category. The product is expected to have a longer shelf life than the core Cordials line, while maintaining the form factor and pricing of some of the leading candies already in the market. Resonate Blends expects this new product to be available during the summer of 2022.

In May 2021, the company officially launched Koan Cordials at the WEEDCon industry convention, and across 2021 has established key sales, distribution and delivery infrastructure. That allowed for a commercial launch and the commencement of revenue generation to the company. Its initial focus is California, which is the United States’ largest adult-use cannabis market. The state accounted for \$5.2 billion in sales, which represented approximately 25% of all cannabis sales in the U.S. in 2021, according to the state’s Department of Tax and Fee Administration (CDTFA).

Over the long-term, we see considerable opportunity for expansion, both organically and through acquisition; licensing opportunities already have emerged and the infrastructure to support product manufacturing and distribution is transportable. As of early 2022, some 19 states and three U.S. territories have approved adult-use cannabis. In April 2022, New Jersey initiated adult-use sales on a limited basis (which we expect will expand as

infrastructure is put in place to support a broader market). Resonate Blends has held discussions with retailers and manufacturers in legal states outside of California, where its partners already have operational capacity and scalability.

Since launch, Koan Cordials has seen modest adoption, which the company attributed to factors including dispensaries being resistant to taking on new brands amid the COVID-19 pandemic; some price elasticity among customers for premium-priced products; and the need to educate budtenders and consumers on the product’s value proposition, given the challenging cannabis marketplace. As a result, Resonate Blends has established a comprehensive brand-awareness and education marketing program that is available across its various distribution channels. These materials, which consist of in-store printed brochures, as well as web-based app-style and webinar events, will introduce the company, its philosophy, and its products to consumers and are designed to drive retail and e-commerce traffic and ordering.

The company’s products are designed to appeal to multiple consumer demographics, and its core targeted customers range from the curious to previous users who are coming back to the market. Typically, they are educable and seeking alternatives to smoking. Resonate also targets wellness practitioners who are looking for solutions to improve conditions including pain, insomnia, anxiety, and performance enhancement. Occasional users and heavy users are secondary target groups.

Resonate Blends’ distribution strategy consists of building a retail presence with boutique dispensaries, planning promotional events and Leaf.vip incentive training for bud-tenders, among other initiatives. Since September 2021, the company has announced partnerships with dispensaries across California, notably a deal with Captor Retail Group that made the Koan Cordials product line available across CRG’s nine-location dispensary portfolio, including the fast-growing One Plant California and CHAI Cannabis Co. retail networks. In May 2022, the company partnered with leading wholesale distributor Nabis, which serves 99% of cannabis retailers in California. In our view, Resonate Blends should have many opportunities to align with additional premier retail dispensaries and dispensary networks across California that share its view that value-added brands will drive value for the cannabis industry moving forward. In addition, the company has launched e-commerce and home delivery capabilities, which we think should better enable control over product messaging, offer the potential for higher profit margins, and enhance customer loyalty.

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PEER COMPARISON											
Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
RESONATE BLENDS	OTCQB: KOAN	0.10	0.52	0.07	5	-80	NM	NM	NM	1.76	NA
LOWELL FARMS	CNSX: LOWL	0.33*	1.72*	0.25*	33*	-73	26	NM	NM	1.94	NA
HARVEST ONE CANNABIS	TSXV: HVT	0.03*	0.12*	0.03*	8*	-70	2	NM	NM	1.93	NA
CHARLOTTE'S WEB HOLDINGS	TSX: CWEB	0.62*	5.03*	0.50*	86*	-87	1	NM	NM	1.97	NA

* Statistics in Canadian Dollars (CAD)

COMPETITIVE ADVANTAGE

During the second quarter of 2021, Resonate Blends introduced the Koan family of Cordials to its target market of California, the largest market in the United States for adult-use cannabis. In our view, California's adult-use market has exceeded expectations since sales began in early 2018, but has been hindered by high taxes and the maintenance of a sizable unregulated cannabis market, among other factors. In 2021, sales increased by approximately 20% to \$5.2 billion, according to California's Department of Tax and Fee Administration (CDTFA). In 2020, the commercial market for cannabis was boosted by the COVID-19 pandemic, as California declared cannabis an essential service amid widespread industry lockdowns. As a result, regulations were loosened, which resulted in increased use among a broader base of customers. In our view, this helped ease the long-existing stigma over cannabis use. Despite the modest launch of the Koan Cordials line, Resonate Blends appears to be well positioned to penetrate the California market with a unique product line during a period of high consumer demand.

Resonate's business model is a key competitive advantage, as it is not subject to the myriad of regulatory challenges as well as the supply/demand and pricing dynamics that affect cannabis growers and extractors. The company strategically avoided commoditized services in establishing its model, and focused on the value-add of innovative product and brand development.

In our view, Resonate Blends' multi-channel distribution strategy, in combination with its expanding product portfolio, support the attractive market opportunity. The Koan product line being sold in boutique dispensaries throughout California should boost the profile of the brand, while its niche, in-house sales process should allow the company to better educate and form relationships with budtenders, enabling them to provide personalized education and service to consumers.

In addition to establishing the brand among physical dispensaries, Resonate Blends is operating as a digital native company, and has developed e-commerce and home-delivery service capabilities. This strategy should allow the company to better control its messaging to and education of its consumers, and also support its goal to market an entire line of Koan products. In addition, digital distribution carries better margins and reflects the migration of cannabis purchasing away from storefronts into delivery-based models, which should facilitate a national expansion strategy over time. During 2020, more than 400,000 Californians received deliveries of cannabis products, largely driven by COVID-19 concerns. Customers showed clear evidence of comfort ordering online, compared with going into a dispensary (which tends to be a more-stressful experience). As such, we expect Resonate Blends to be able to service this key segment and capitalize on clear trends in the market.

Underlying the favorable commercial prospects, the Resonate System is supported further by extensive plant science and component studies that allow for a consistent experience in every serving. The company's studies explored various emulsification regimens so as to ensure the proper ratio of THC, CBD, terpenes, and other components to reach target levels with precision. In doing so, the company believes has been able to master the art of experience for consumers by capturing and calibrating highly precise measures including time to onset, peak impact, and downramping, further enabling customers to make confident, informed and intentional

decisions related to the use and timing of the products. In beta testing, positive engagement from subjects exceeded 90%.

As it builds a product ecosystem and portfolio around Koan Cordials, Resonate Blends has aligned itself with industry thought leaders to expand its knowledge base and presence across the industry. In determining the ideal emulsification profile for Koan, Resonate partnered with Vertosa, an emerging leader in that field. More recently, in June 2021, Resonate announced a relationship with Colleen Quinn, an internationally renowned clinical aromatherapist, cosmetic chemist, researcher, and educator who specializes in cannabis research, formulations and education. Ms. Quinn works with Resonate's product development team to develop new cutting-edge cannabis plant-based products. She also serves on the company's advisory board. Resonate also has engaged with leading cannabis industry influencer Gaynell Rogers, who is aligned with activist and advocate Steve DeAngelo (dubbed the "father of the legal cannabis industry"). Most recently, Resonate Blends added Adam Wilks as an advisor on M&A, retail and distribution strategies. Mr. Wilks advises several well-known cannabis brands and Multi-State Operators (MSO) on retail growth initiatives and brand expansion strategies, and has participated in several large cannabis M&A transactions.

As mentioned above, many aspects of the growing and extracting processes of the cannabis industry have become commoditized. This supports Resonate Blends' strategy of focusing on value-added brands. We believe the company will be able to develop a robust intellectual property strategy around its advanced technologies. In our view, its work on emulsification of the components that comprise the Resonate System, including the ratios that make up each product, could represent a key knowledge moat.

To that end, Resonate Blends has filed two Provisional Patent Applications with the U.S. Patent & Trademark Office (USPTO) covering the methods and formulations, including a combination of cannabinoids and terpenes calculated and specifically formulated to achieve a targeted, specific and repeatable user experience while utilizing processes to design and increase bioavailability, and on its unique product packaging. We also expect Resonate Blends to soon file a third patent application, covering the processes for reliable experience targeting in flower products. We see continued IP development and protection as further separating the company from industry peers.

ANALYST COMMENTARY: EARNINGS

Resonate Blends shares trade on the OTCQB, under the ticker KOAN. As of December 31, 2021, the company had approximately \$13,000 in cash and cash equivalents on its balance sheet. Subsequently, in February 2022, Resonate Blends closed on a \$500,000 bridge funding round with two accredited investors who have funded multiple rounds with the Company, and have committed an additional \$250,000 on the same terms. Importantly, the company has fully allocated funding for initial product manufacturing, commercial launch, and marketing-related costs, and is generating revenue from Koan Cordials sales.

During 2022, we expect revenue growth to be supported by the expanding retail footprint, educational efforts, and product formulations. In addition, we think new packaging options, including multi-serving bottles for established brand adopters, are likely to enhance margins due to lower cost per serving.

As of December 31, 2021, the company had \$1.9 million in convertible notes and \$2.3 million in non-cash derivative liabilities on its balance sheet, which relate to a private placement among accredited investors. The current note will be converted into equity ultimately at a fixed price, and the associated liability will be eliminated upon conversion, leaving the company debt-free.

We view management's commitment to strict discipline on its share structure and debt control favorably, as compared with many other failed or underperforming companies across the cannabis industry. We are encouraged by the recent addition of Albert Richards as an investment advisor. Mr. Richards has 20-years of financial services expertise, notably as the founder of Alambic Investment Management, where he developed and deployed systematic stock selection strategies, as well as a sell-side analyst and head of research within two large global investment banks, where he focused on the identification and quantification of the key drivers of equity valuation and company quality.

With approximately 48 million shares outstanding, Resonate Blends should be able to include equity-based financing and other shareholder friendly vehicles to help fund future growth and expansion initiatives, while still building value and confidence from its shareholders. We expect such transactions to include acquisitions that can accelerate Resonate Blends' commercial footprint expansion into new regions, states and dispensaries, and, in turn, the revenue growth prospects for a broader product portfolio. We note that Resonate Blends terminated a Letter of Intent to acquire lemon and grass™ in October 2021. However, the company is still evaluating an asset purchase, and we think there remains potential for Resonate Blends to acquire certain brands in L&G's portfolio to support Resonate's broader growth strategies. We also expect Resonate Blends to seek additional M&A roll-ups of revenue producing companies into the holding company portfolio.

Lastly, we note that a successful Koan product launch and expansion of the overall product portfolio likely would result in Resonate Blends' valuation trading more inline with the group average from a basket of medicinal and botanical product companies (which recently traded at average trailing multiples of 3.2-times EV/sales and a price-to-earnings ratio over 22-times). Based on Resonate's recent market capitalization range around \$5 million, we see significant upside potential for the shares as investors become aware of the company and are able to assess the commercial launch and sales trajectory.

MANAGEMENT

Geoff Selzer founded Resonate Blends in 2018 and serves as CEO & chairman. Previously, Mr. Selzer was a consultant to New American Blends, a medicinal cannabis company, where he helped to rebrand, formulate, and source product; organize development; and create long-term strategic plans. Prior to entering the cannabis industry, Mr. Selzer established a record of founding, leading, and growing companies across a variety of digital media entities, including Luminous Publishing (Founder/CEO), Emergent Game Technologies (CEO/Chairman), and Disney's Interactive Division (VP of Creative Development and Production). Prior to his work in media, Mr. Selzer worked in investment banking, with an emphasis on mergers and acquisitions.

RECENT DEVELOPMENTS

In 2021, Resonate Blends made significant strides to become a commercial company. The company announced multiple definitive agreements with partners in such areas as product formulation, assembly and packaging, sales and distribution and social media marketing to support the launch of the Koan Cordials product line into the California market.

On the retail front, the company has announced new partnerships designed to expand its commercial footprint across its core California market. In March 2022, the company expanded its retail network to include Cornerstone Wellness, Atrium, and Canni Delivery, all based in the greater Los Angeles area. In September 2021, Resonate partnered with Captor Retail Group, making the Koan Cordials product line available across CRG's nine-location dispensary portfolio, including the fast growing One Plant California and CHAI Cannabis Co. retail networks. The company was invited to be a selected brand at a showcase from San Francisco-based Joy Reserve dispensary, which will focus on educating consumers on the benefits of cannabis and about safety standards to use when selecting products such as Koan Cordials.

In addition, the company announced a partnership with California's leading cannabis e-commerce technology company, Grassdoor, to provide the Koan Cordials line with a direct-to-consumer (DTC) e-commerce platform and comprehensive statewide home delivery. We also see DTC as a vehicle for Resonate Blends to drive sales through bundling, both within and outside of its own portfolio. The Company also moved its sales process in-house versus using third-party sales teams, which we expect to be a key component of its dispensary growth strategy. Toward that end, Resonate Blends has hired an experienced dispensary sales representative for Southern California, and also expects to hire a representative for the Northern California region.

In May 2022, Resonate Blends teamed with Nabis, a leading cannabis wholesaling platform and marketplace operator. Nabis serves 99% of cannabis retailers in California, supporting over 200 exclusive brands and supplying 1300 state-licensed dispensaries in California with top-tier products. Nabis' distribution network offers clients fast and timely fulfillment, warehousing, payment processing, financing, data analytics, and sales and marketing services. As well, its Marketplace allows retailers to order products directly and allows brands to reach retailers directly with messages and promotional offers.

During 2021, Resonate Blends received several accolades for the Koan line, which we think validates the line's prospects for widespread adoption in the California market. Of note, Koan Cordials was awarded the Gold Leaf Award for "Best New Brand of 2021" from the Luxury Meets Cannabis Conference ("LMCC"), which honors visionary crossover brands, retailers, and founders that are going above and beyond both in and outside of the cannabis space. Resonate Blends has noted this award announcement has attracted potential acquisitions and new state expansion opportunities.

In addition, Koan Cordials won a Bronze 2021 Cannabis Award for brand design in the packaging category from the Clio Awards, which recognizes innovation and creative excellence in advertising, design and communication. In our view, this award validates the differentiation of its unique product packaging.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2019	2020	2021	Q1 2022
Revenue	0.0	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0	0.0
SG&A	3.2	1.8	2.5	0.7
R&D	0.0	0.0	0.0	0.0
Operating Income	-3.2	-1.8	-2.5	-0.5
Interest Expense	0.2	0.1	0.4	0.1
Pretax Income	-3.4	-1.9	-4.9	0.5
Tax Rate (%)	NA	NA	NA	NA
Net income	-3.7	-1.9	-4.9	0.5
Diluted Shares	11.2	25.4	31.1	47.8
EPS	-0.31	-0.08	-0.16	0.01
Dividend	NA	NA	NA	NA
Growth Rates (%)				
Revenue	NA	NA	NA	NA
Operating Income	NA	NA	NA	NA
Net Income	NA	NA	NA	NA
EPS	NA	NA	NA	NA
Valuation Analysis				
Price (\$): High	0.70	0.27	0.93	NA
Price (\$):Low	0.07	0.03	0.11	NA
PE: High	NA	NA	NA	NA
PE: Low	NA	NA	NA	NA
PS: High	NA	NA	NA	NA
PS: Low	NA	NA	NA	NA
Yield: High	NA	NA	NA	NA
Yield: Low	NA	NA	NA	NA
Financial & Risk Analysis (\$MIL)				
Cash	0.0	0.1	0.1	0.2
Working Capital	-0.6	-1.1	-4.1	-3.3
Current Ratio	0.1	0.1	0.1	0.1
LTDebt/Equity (%)	NM	NM	NM	NM
Total Debt/Equity (%)	NM	NM	NM	NM
Ratio Analysis				
Gross Profit Margin	NM	NM	NM	NM
Operating Margin	NM	NM	NM	NM
Net Margin	NM	NM	NM	NM
Return on Assets (%)	NA	NA	NA	NA
Return on Equity (%)	NA	NA	NA	NA
Op Inc/Int Exp	NA	NA	NA	NA
Div Payout	NA	NA	NA	NA

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