

October 6, 2021

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 cannabis, its components, and their interactions. 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 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 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, and support the lifestyles of cannabis users. 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 (10/5/21)	\$0.34
52 week high/low	\$0.93-\$0.08
Shares outstanding (M)	45
Market cap (M)	15.3
Dividend	Nil
Yield	Nil

Sector Overview

Sector	Consumer Discretionary
Sector % of S&P 500	11.9%

Financials (\$M)

Cash & Mkt Securities	1.0
Debt	1.9
Working Capital (\$M)	-5.2
Current Ratio	0.2
Total Debt/Equity (%)	NM
Payout ratio	NM
Revenue (M) TTM	NM
Net Income (M) TTM	NM
Net Margin	NM

Risk

Beta	1.08
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 first commercial release is a patent-pending family of six precisely targeted effect blends called Koan Cordials. Koan Cordials are emulsified, water-soluble formulas that are individually bottled in artistically designed packaging. Each dose can be used as a tincture, shot, or mixed in a drink. The six 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, and Delight. Similarly, products for Sleep and Love are also in late-stage development.

In May 2021, the company officially launched the product line 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 market is California, which is the United States' largest adult-use cannabis market. The state accounted for more than 25% of all cannabis sales in the U.S. in 2020, and experienced 57% growth that same year. Over the long-term, we see considerable opportunity for expansion, both organically and through acquisition; licensing opportunities have already emerged and the infrastructure to support product manufacturing and distribution is transportable. As of early 2021, some 15 states and three U.S. territories have approved adult-use cannabis. Among these, states including New York and New Jersey have approved adult-use cannabis, though we expect it to take some time for these states to build infrastructure and commence commercial sales.

Resonate Blends has established a comprehensive brand-awareness and education marketing program that will be 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, and teaming with

Good People as its sales partners to plan promotional events and train bud-tenders, among other initiatives. In September 2021, the company announced a partnership 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 our view, Resonate Blends should have ample opportunity to align with additional retail dispensary networks that share its view that value-added brands will drive value for the cannabis industry moving forward. In addition, the company is building an infrastructure to support e-commerce and home delivery sales, which we expect will be rolled out in October 2021, and should better enable control over product messaging, offer the potential for higher profit margins, and enhance customer loyalty.

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 far exceeded expectations since sales began in early 2018. In 2020, sales increased by 57% to \$4.4 billion, according to MJ Biz's Industry Factbook. California accounted for more than 25% of adult-use cannabis sales in the United States that same year.

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. As such, we believe that Resonate Blends is well positioned to enter 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.

Resonate Blends has established a multi-channel distribution strategy to support a successful introduction to the market. The Koan product line will be sold in boutique dispensaries throughout California, which the company expects will drive brand aware-

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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	OTC: KOAN	0.34	0.93	0.08	15	233	NM	NM	NM	1.08	NA
LOWELL FARMS INC	CNSX: LOWL	1.30*	2.73*	1.13*	144*	-11	15	NM	NM	2.04	NA
HARVEST ONE CANNABIS	TSXV: HVT	0.08*	0.58*	0.05*	20*	33	40	NM	NM	2.08	NA
CHARLOTTE'S WEB HOLDINGS	TSX: CWEB	2.28*	8.88*	2.19*	322*	-28	1	NM	NM	2.14	NA

* Statistics in Canadian Dollars (CAD)

ness as budtenders provide personalized education and service to consumers. Resonate believes it can serve this niche with a small sales team that can utilize in-store and printed/web-based materials to “educate the educators” and form individual relationships with budtenders.

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 dose. 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 will work with Resonate’s product development team to develop new cutting-edge cannabis plant-based products. She will also serve 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 a Provisional Patent Application 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. Resonate Blends also has filed for patent protection on its unique product packaging, and 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 June 30, 2021, Resonate had \$1.0 million in cash and cash equivalents on its balance sheet, compared with \$114,000 at the end of 2020. 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.

As of June 30, 2021, the company had \$1.9 million in convertible notes and \$4.3 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 45 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. To that end, in September 2021, Resonate Blends signed a binding letter of intent (LOI) to acquire lemon and grass™, which markets a line of cannabis wellness products including balms, bath salts, tinctures, relief capsules, body oils and transdermal patches. We view favorably the structure of the proposed acquisition, as it would largely be comprised of incentive-based milestone payments and equity issuances to its sellers. Further, we think that the sellers of lemon and grass™, who are influential in the North American cannabis sector, would be able to help accelerate Resonate Blends’ commercial footprint expansion into new regions, states and dispensaries, and, in turn, the revenue growth prospects for the combined product portfolio.

We expect Resonate Blends to expand its capabilities, both organically and by acquisition. We view the proposed acquisition of lemon and grass™ in September 2021, as consistent with its objective to identify new, but complementary product categories and distribution capabilities to support long-term growth.

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 3.5-times EV/sales and a price-to-earnings ratio over 24-times). Based on Resonate's current market capitalization under \$20 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

Across 2021, Resonate Blends advanced its Koan Cordials product line from full-scale production to commercial availability. To achieve these milestones, the company established key infrastructure by selecting Good People LLC as its statewide Koan sales

team. It also selected MARS Distribution, the leading logistics and sales partner for cannabis beverages and top cannabis brands in California (delivering orders to retailers in 72 hours or less) as its primary distributor. 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.

On the retail front, the company announced a partnership with Captor Retail Group in September 2021 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 September 2021, Resonate Blends announced the signing of a binding letter of intent (LOI) to acquire lemon and grass™, whose product line includes balms, bath salts, tinctures, relief capsules, body oils and transdermal patches that focus on the functional side of cannabis wellness and complement Resonate's experience-targeted product line. The transaction is expected to close in the fourth quarter of 2021.

With more than 40 dispensaries, lemon and grass™ sells in Florida and is in preparation for a reintroduction in California. This follows a successful 50-dispensary trial, and scheduled official launches in the Canadian provinces of Ontario and Alberta in September 2021. The company also has licensing plans for multiple legal states in the U.S., which we think should support Resonate Blends' multi-state expansion and growth efforts, both organically (through internal development) and by acquisition. Further, we think that the established regulatory and commercial infrastructure of lemon and grass™ in new markets, combined with Resonate Blends' distribution and e-commerce capabilities in California, should enable the successful adoption and expansion of both product lines.

Steve Silver

INCOME STATEMENT

Growth Analysis (\$MIL)	2019	2020	Q1 2021	Q2 2021
Revenue	0.0	0.0	0.0	0.0
Gross Profit	0.0	0.0	0.0	0.0
G&A	3.2	1.8	0.8	1.4
R&D	0.0	0.0	0.0	0.0
Operating Income	-3.2	-1.8	-0.8	-1.4
Interest Expense	0.2	0.1	0.0	0.2
Pretax Income	-3.4	-1.9	-1.1	-5.4
Tax Rate (%)	NA	NA	NA	NA
Net income	-3.7	-1.9	-1.1	-5.4
Diluted Shares	11.2	25.4	31.1	31.1
EPS	-0.31	-0.08	-0.03	-0.17
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	NA	NA
Price (\$): Low	0.07	0.03	NA	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	1.6	1.0
Working Capital	-0.6	-1.1	-0.9	1.9
Current Ratio	0.1	0.1	0.6	0.2
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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