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GoverMedia Plus Canada Corp.

(CSE: MPLS; FSE: 48G)

Leveraging Growing Russian Internet Penetration and Cryptocurrency Interest

GoverMedia Plus aims to provide a leading-edge online ecosystem for the global Russian-speaking population and what management calls a “one stop-shop experience.” It operates in several fields including e-commerce, social media, cryptocurrencies, blockchain launchpad services and blockchain, with multiple revenue streams anticipated.

OUTLOOK

Management believes the Russian market provides an attractive opportunity for a turnkey digital platform to support online commerce and marketing. It aims to leverage the rising internet penetration of the Russian-speaking population, which exceeds 70%. We are optimistic about the growth of the Russian e-commerce sector and rising use of blockchain technology. We believe the shares represent an option on management’s ability to execute its plan if its strategy is successful.

Current Price (06/26/18) \$0.21
Medium-Term Valuation* \$1.00-\$1.25

SUMMARY DATA

52-Week High	0.59	Risk Level	High
52-Week Low	0.20	Type of Stock	Microcap
One-Year Return (%)	NA	Industry	Internet
Beta	NA	Zacks Rank in Industry	N/A
Average Daily Volume (sh)	63,000		
Shares Outstanding (mil)	42		
Market Capitalization (\$mil)	\$11.2		
Short Interest Ratio (days)	NA		
Institutional Ownership (%)	NA		
Insider Ownership (%)	NA		
Annual Cash Dividend	\$0.00		
Dividend Yield (%)	0.00		
5-Yr. Historical Growth Rates			
Sales (%)	N/A		
Earnings Per Share (%)	N/A		
Dividend (%)	N/A		
P/E using TTM EPS	N/A		
P/E using 2018 Estimate	N/A		
P/E using 2019 Estimate	N/A		
Zacks Rank	N/A		

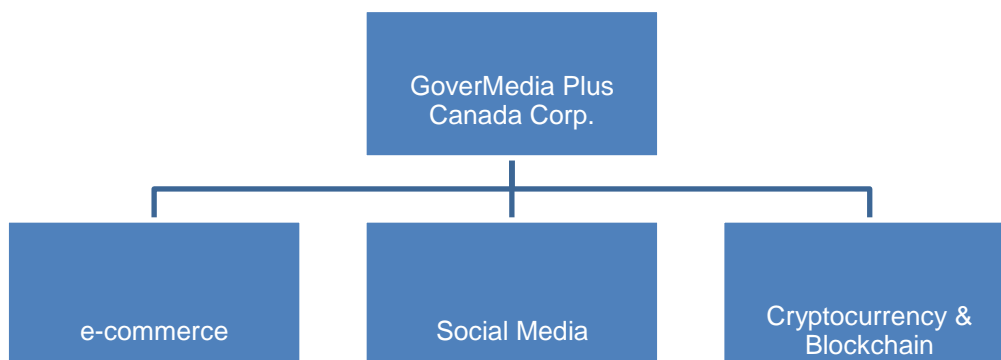
*If company hits its revenue projections
Disclosures begin on page 20.

KEY POINTS

- Canada's GoverMedia Plus Canada Corp. is an emerging company that aims to provide e-commerce, social media, cryptocurrency, and blockchain launchpad services in Russia. Towards this goal, the company recently made a significant M&A transaction. Reflecting its acquisition of Russian operating company GoverMedia Plus LLC in an all-share transaction in Autumn 2017, the company has become a Canadian entity with a wholly owned Russian internet technology operating subsidiary.
- Blockchain and cryptocurrencies are at extremely early stages in their adoption and development. At this point, significant volatility in trading patterns is likely. Over the longer term, however, the volatility will be seen as mere blips in an overall upward trajectory.
- Blockchain is separate and distinct from cryptocurrency. Although blockchain is the underlying digital architecture that supports many digital cryptocurrencies, the technology has much broader applications for GoverMedia Plus Canada to leverage.
- The many advantages of the decentralized architecture of blockchain include the difficulty of hacking this type of configuration and enhanced privacy and security, as well as cost reductions that it provides.

OVERVIEW

GoverMedia Plus Canada Corp. is an emerging company that aims to provide e-commerce, social media, cryptocurrency, and blockchain launchpad services in Russian speaking markets. Towards this goal, the company recently made a significant M&A transaction. Following its acquisition of Russian operating company GoverMedia Plus LLC in an all-share transaction in Autumn 2017, GoverMedia Plus Canada Corp. is a Canadian company with a Russian internet technology subsidiary.



Source: Company reports

Fields in which the company operates include e-commerce, social media, cryptocurrencies, blockchain launchpad services and blockchain. GoverMedia Plus intends to provide a leading-edge online ecosystem for the global Russian-speaking population to engage and interact. The company intends to encompass a myriad of online services into one platform and ecosystem that will provide users with what management calls a “one stop-shop experience.”

The company anticipates multiple revenue streams, including advertising, e-commerce, auctions, professional search, crowdfunding, cryptocurrency payment processing and cryptocurrency trading. The company's target customers include online buyers and internet users. Specifically, GoverMedia targets the rapidly growing online retail Russian community and also intends to

register business users that seek to leverage the retail user base of the GoverMedia platform. The GoverMedia infrastructure can support entrepreneurs' daily business operations, as businesses can access the GoverMedia platform to improve customer engagement, maximize marketing budgets, boost revenue and automate business operations.

The company has registered 180,000 total active users and targets one million in the next few years. At the same time, GoverMedia has recorded increased user activity on its e-commerce platform, with positive trends in user engagement.

Management expects to achieve substantial operating leverage as revenue scales. This is because GoverMedia's operations will consist primarily of R&D, sales and marketing activities, crowdfunding analysis, marketing activities, back-office and administrative activities, customer service, and operations management. In this early stage of the company's development, it is ramping up its marketing team and recently added several new important hires with significant sales experience, as well as a CFO to oversee the cost structure. Over time, the company intends to introduce an Ambassador Program, with ambassadors promoting the GoverMedia brand.

The company expects to generate revenue from several different offerings. For example, GoverMedia intends to offer corporate users the opportunity to directly market via the platform, providing different advertising packages at varying price points to enable marketers to create promotional campaigns tailored for their specific budgets and needs. The company also intends to offer subscriptions to corporate users to commercialize products on the GoverMedia e-commerce subplatform. GoverMedia intends to charge a percentage fee on each transaction processed through its platform. Retail users can access the platform under a freemium model.

The company intends to leverage the growing internet population in the Russian speaking markets as GDP per capita rises. From 1990 to 2016, Russia's GDP per capita grew from \$3,485 to \$8,748, according to the World Bank 2017. This increase fueled growth in consumer spending, as well.

The company's plan in the medium-term is to establish its business in Russian speaking markets in order to connect Russian-speaking people globally through its proprietary online ecosystem, which is focused on e-commerce, social media, cryptocurrency and blockchain technologies. In the longer term, the company hopes to expand internationally, focusing on European, Chinese and North American markets. The company's strategy is to develop a global comprehensive online ecosystem that offers most of the internet services an entrepreneur needs, so that users can perform online functions in one platform and will not have to leave the company's ecosystem.

The company has listed its common shares on the Canadian Securities Exchange, trading under the ticker CSE: MPLS following a February 28, 2018 IPO of 3.54 million common shares at \$0.50 per share, which raised gross proceeds of \$1.77 million. The IPO followed a \$1.0 million capital raise in which the company issued 2.0 million common shares at \$0.50 per share to holders of subscription receipts. With the funds from the recent capital raises, combined with the IPO and subsequent listing, management believes its improved access to the capital markets will enable the company to move its strategy forward.

MARKET OPPORTUNITY

Management believes that the Russian market provides an attractive growth opportunity, given its strategy to leverage the rising internet penetration of the Russian-speaking population, which has an estimated internet penetration that exceeds 70% according to market research firm GfK. This figure is slightly ahead of data from internet research specialist, eMarketer, which pegged Russian Internet penetration in 2015 at 61%. Nevertheless, both GfK and eMarketer note the rapid growth in internet usage within the market, which could present positive demographics for online retail and e-commerce, social media and crypto, we believe.

Russia is one of the BRICS countries, a group that also includes Brazil, India, China and, as of 2010, South Africa. In the aggregate, these nations comprise 40% of the world's population and were at one point believed to outstrip other global economies in terms of economic growth. From "1990 to 2014, these countries went from accounting for 11 percent of the world's GDP to almost 30 percent," according to Time magazine, which notes that "in 2000, 29 percent of Russians lived below the poverty line; by 2012, just 11 percent did." However, in recent years, Russia's economy had been hurt by falling commodity prices, specifically oil. Reflecting plummeting oil prices, the Russian economy entered a recession in 2015.

Russian GDP, 1996-2016



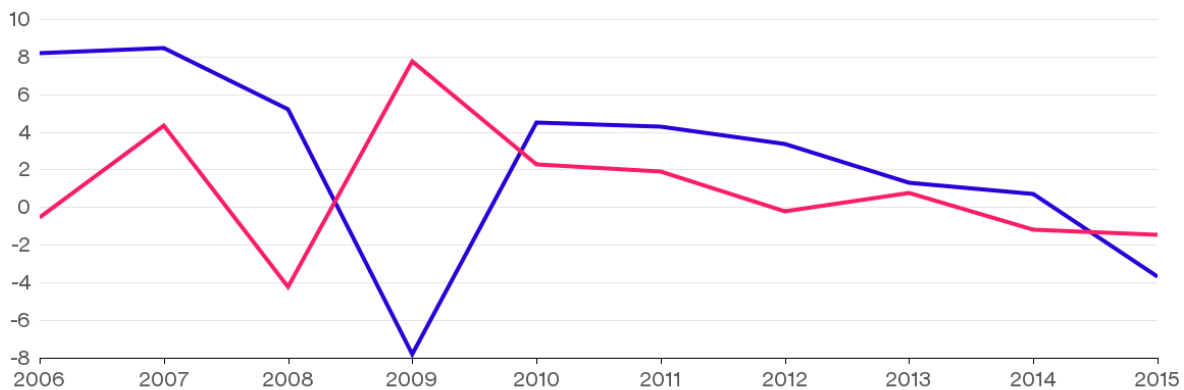
Source: World Bank data

According to the World Economic Forum, "Russia is one of the world's largest energy exporters, so the commodity price slump has hit hard – with high inflation hurting households and government coffers running low. In 2015, oil and gas accounted for around 44% of government revenues." The chart below shows the correlation between oil prices and Russian GDP.

Russia's GDP Goes With The Oil Flow

Dependence on crude revenues makes Russian economy vulnerable to Brent price declines

■ GDP dynamics ■ Brent dynamics in rubles*



Source: Bloomberg data
*normalized

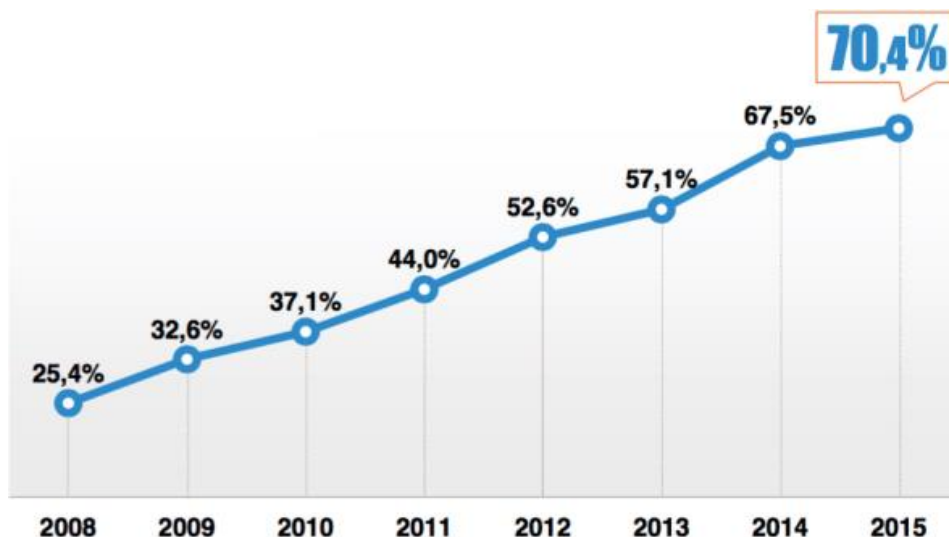
Bloomberg

Per the World Factbook, a “combination of falling oil prices, international sanctions, and structural limitations pushed Russia into a deep recession in 2015, with GDP falling by close by 2.8%. The downturn continued through 2016, with GDP contracting another 0.2%, but was reversed in 2017 as world demand picked up. Government support for import substitution has increased recently in an effort to diversify the economy away from extractive industries.”

GROWING INTERNET AND MOBILE PENETRATION

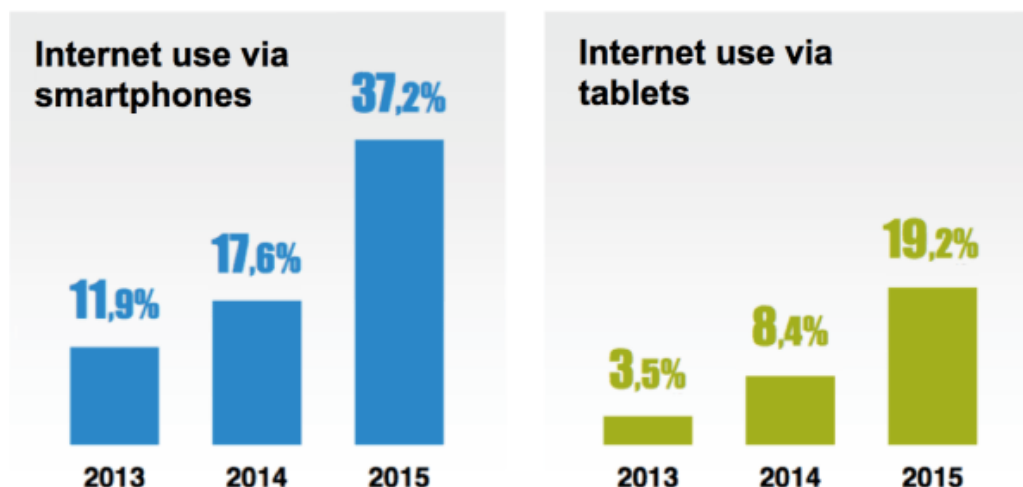
At the same time, the Russian market is also characterized by rapidly increasing internet penetration. Although Russia had trailed many other European countries in terms of Internet penetration, it has closed that gap, according to GfK. GfK cites rising mobile usage as a key factor. According to GfK, Russian mobile internet access more than doubled in 2015. The growth of the market is primarily driven by the rise in the adoption of smart devices and gadgets. The digitalization of businesses and systems in Russia further encourage smart device adoption. GfK also expects these factors to fuel the growth of internet of things (IoT) market. These patterns are consistent with worldwide mobile adoption patterns.

Internet penetration in Russia (16 y.o. and older), 2008-2015

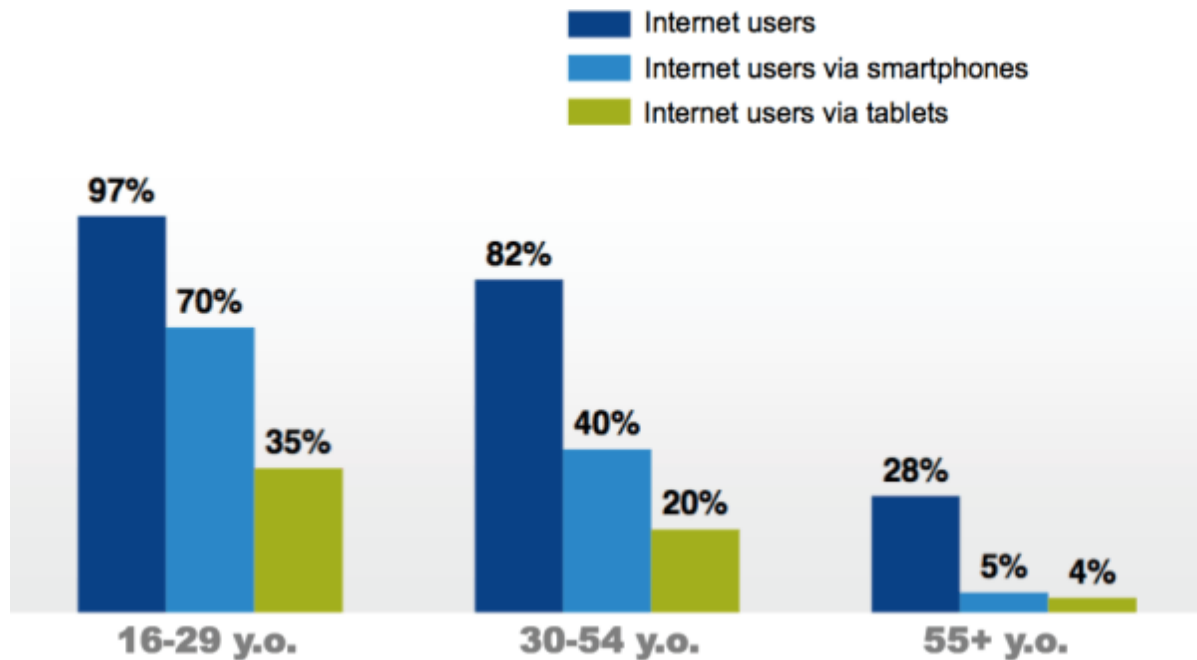


Source: GfK

Mobile Internet penetration (Age 16 & older), 2013-2015 - Source: GfK

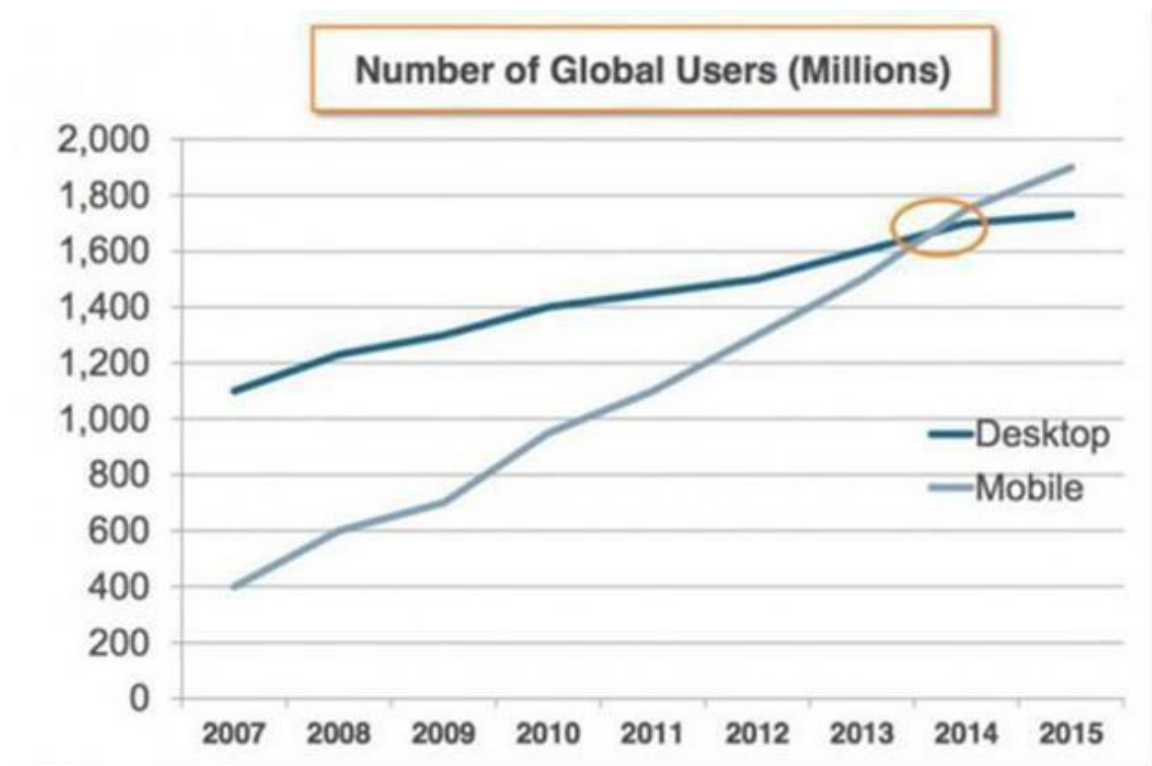


Types of Internet use by age in 2015



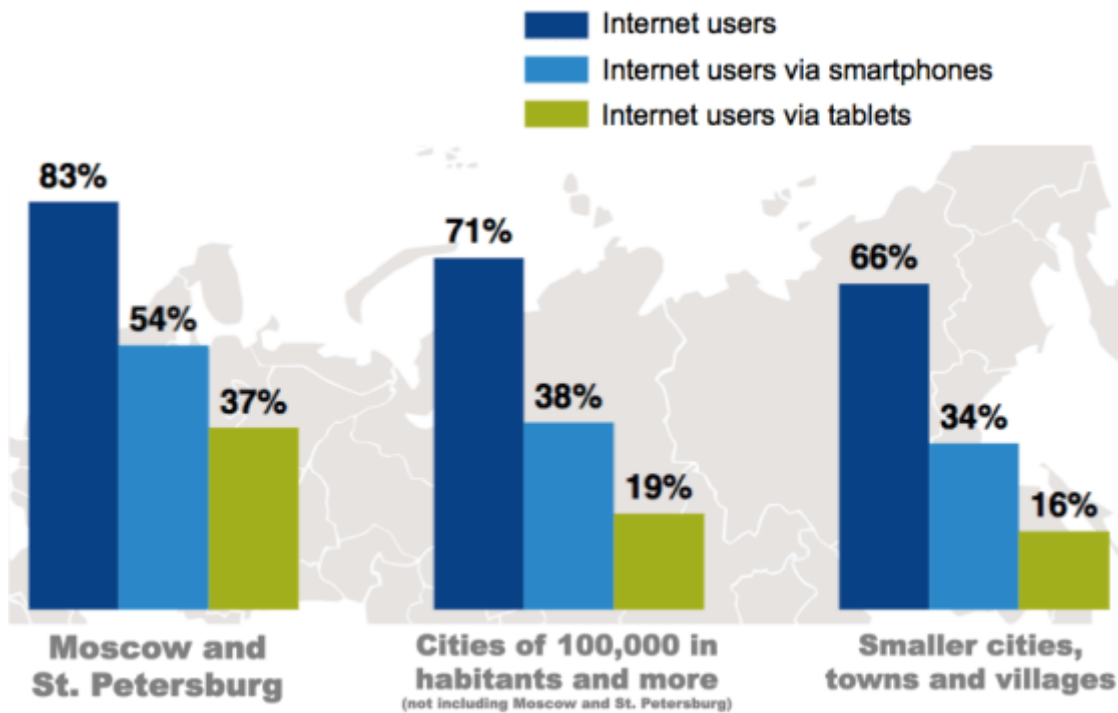
Source: GfK

Globally, mobile technology penetration has grown dramatically over the past decade. Worldwide adoption rates of mobile devices such as smartphones and tablets are tracking significantly ahead of that of other technology platforms such as PCs or broadband. There were 1.2 billion smartphones and tablets shipped in 2013 according to IDC, with 218 million designated for business use. Smartphone penetration reached 65.2% of the U.S. mobile subscriber market during the fourth quarter of 2013, according to comScore, up more than 11% points from the same time frame a year earlier. Smartphones took only 8-years to reach 20+% penetration globally.



Source: comScore

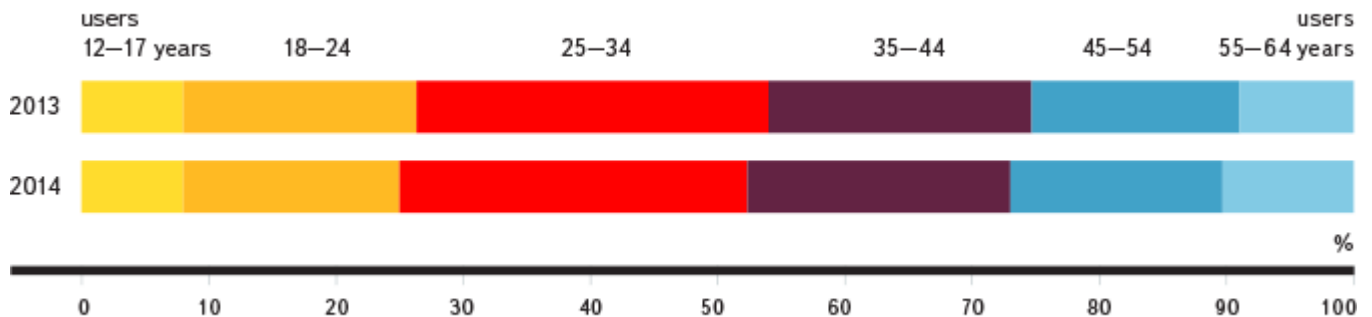
Russian Internet penetration by city size in 2015



Source: GfK

Moreover, as illustrated below, younger users aged 16 to 29 rely on mobile to a greater extent than do older users, with 70% of this demographic accessing the internet via phones and 35% via tablets, according to GfK. In part, this is because mobile provides a more economical way within the market to access the internet. Not surprisingly, internet penetration in major metropolitan areas such as Moscow exceeds the national average, with significantly higher mobile and tablet penetration, as well.

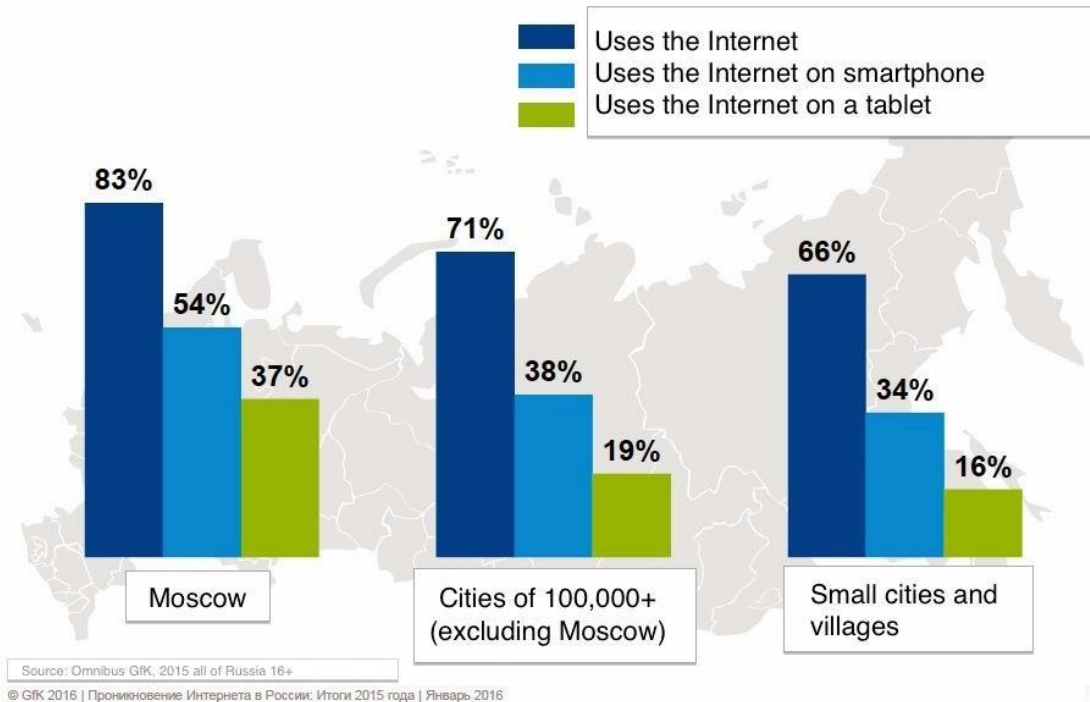
AGE REPRESENTATION OF RUSSIAN INTERNET AUDIENCE



SOURCE: TNS WEB INDEX, DECEMBER 2014
MEASUREMENTS WERE NOT TAKEN FOR THE AGE GROUP OVER 64 UNTIL 2014, SO THEY ARE NOT REPRESENTED IN THE DIAGRAM

There are roughly 50 million users in Russia, about 42% of the adult population, currently accessing the Internet using mobile devices. The older population has contributed to much of the recent rise in Internet penetration, as the majority of younger users were already accessing the internet via mobile. As indicated, younger users aged 16 to 29 have fueled a greater portion of mobile activity. Of this demographic, roughly 70% accesses the internet using phones and 35% use tablets, as noted earlier.

Geography of the Russian Internet



According to eMarketer, Russia had 54 million smartphone users in 2015. That metric was expected to reach about 73 million by 2019, enabling strong market opportunities – according to eMarketer – for digital and mobile advertising to grow. According to a July 13, 2017, report by market research firm Research and Markets, the Russian Internet of Things (IoT) market is expected to reach \$74.0 billion by 2023. The Russian government has an [Internet Initiatives Development Fund](#), FRII, that invests in start-up ventures and has partnered with technology companies such as the GS Group and mobile operator Megafon, Russia’s second largest mobile phone operator and third largest telecom operator. Along with these and other partners, FRII has launched coverage of the Internet of Things and other emerging sectors such as wearable technology.

Research and Markets estimates that the Russian IoT market will attain a 19.62% CAGR from 2016 to 2023. Research and Markets expects this anticipated market growth to be propelled by advances in communication technology and growing digitalization of enterprise. Moreover, rising adoption of smartphones and other smart devices noted earlier is also expected to contribute to the growth of the IoT space. At the same time, the Russian public sector is also adopting digital technologies that are expected to boost demand for the IoT market.

E-COMMERCE

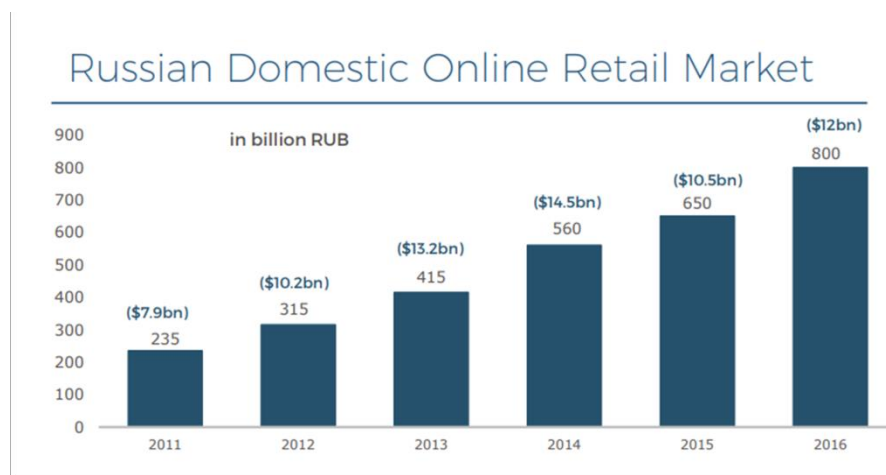
With increased mobile penetration, there has been a growing global trend towards e-commerce. According to McKinsey, "Consumers use the new tools to move dynamically between computer, mobile device and in-store experiences while shopping."

Worldwide e-commerce spending as a percentage of total retail expenditures is projected to reach 9% in 2018, up from 6% in 2013, according to the eMarketer Report. This trend is forecast to continue, reflecting rising consumption among younger, internet savvy users. eMarketer estimates that e-commerce will grow at double-digit rates domestically for the next couple of years.

These trends have combined with growing consumer preference to use cards or digital payments over cash. Over the years, payments have become increasingly card-based, with credit, debit and pre-loaded cards replacing checks and cash for many purchases. Now electronic payments are gaining market share at a rapid pace compared to cash and checks, which also lays the groundwork, we believe, for increased e-commerce activity. The 2013 Nilson Report indicates that electronic payments comprised 8.7% of total paid expenditures in 2007.

Based on eMarketer's research, Russian users turn to both domestic and international retail sites for their online shopping purchases, although most are operated by domestic operators. For example, large Chinese e-commerce company Alibaba operates what eMarketer cites as the "most popular" e-commerce site in Russia, AliExpress and eBay is also a popular online shopping destination for Russian shoppers. A number of sites support Russian bricks-and-mortar retailers particularly in the electronics sector and apparel sectors, the latter of which is the second most popular online retail category in Russia, according to e-Marketer. As of January 2017, the following sites were the most popular online retail destinations in the Russian market.

Moreover, the Russian online retail market has grown from R\$7.9 billion in 2011 to R\$12 billion in 2016, according to the company, and is projected to reach R\$90 billion by 2025. In addition, some 35,000 new online stores are activated each year. Moreover, management indicates that cross-border e-commerce volumes have increased by more than 50%, driven primarily by the growing Chinese consumer purchasing power.



Source: Company reports

In many international markets, growing interest in e-commerce has also led to rising use of electronic payment mechanisms, which in turn might also pave the way for greater commercial use of crypto at some point down the road, we believe. For example, "the total number of checks written in the U.S.

has declined for many years as a result of alternative payment methods, including credit cards, debit cards, direct deposit, wire transfers and internet-based bill paying services, as well as automated teller machines, which make cash a more readily available alternative," according to Deluxe Corp., a leading check manufacturer.

A December 2013 Federal Reserve study noted that in 2012, debit card, credit card and ACH payments all exceeded the roughly 21.0 billion checks that were written, with checks accounting for about 17% of all non-cash payment transactions. By comparison, only two years earlier in 2010, checks accounted for about 25% of all non-cash payment transactions, according to the Federal Reserve, which estimates that the number of checks written contracted by roughly 8.8% per annum from 2009 to 2012.

The top categories for Russian shoppers "have remained relatively stable, and are quite similar to Western trends," according to Yandex's Russian Search Marketing. Consumer electronics is the most popular category and covers a broad range of products from televisions and cameras to mobile phones and video game systems. In fact, the fourth most popular site in Russia is the online extension of a large electronics retailer in Russia, M.Video. The popular online site supplements the chains' network of over 350 bricks-and-mortar stores located in more than 150 cities. DNS, the seventh most popular retail site, is another electronics chain in Russia, as is Eldorado. Apparel, the second most popular retail category, includes men's, women's and children's clothing and accessories. Computer hardware and software are also popular shopping categories, as are home goods, healthcare and sporting goods.

Electronic payments are now also expected to displace cash for many transactions, which we believe also facilitates the trend towards e-commerce, as noted earlier. Partially, this trend reflects the rise of mobile payment options that enable many small businesses to complete transactions they could not accept before because they were not equipped to take credit card payments. Mobile contactless payments are also generally faster and more convenient for many types of transactions than credit, as they enable consumers to pay for purchases by passing their phone near a point of sale terminal. Growing mobile penetration, illustrated below, is expected to further fuel increased spending via mobile devices. The mobile percentage of total e-commerce transactions worldwide averages [34% globally](#).

Shift to Electronic Commerce

Worldwide e-commerce spending as a percentage of total retail expenditures is projected to reach 9% in 2018, up from 6% in 2013, according to the eMarketer Report. This trend is forecast to continue, reflecting rising consumption among younger, internet savvy users. eMarketer estimates that e-commerce will grow at double digit rates domestically for the next couple of years.

The increasing use of the internet and mobile platforms for purchases has also given rise to another factor impacting global commerce: commerce is shifting from a primarily local activity to a multinational and global one, as businesses expand across geographic borders virtually, as well as physically. Enabling online transactions expands the market for many organizations. This is one reason, we believe, why businesses encourage the use of their online e-commerce sites for transactions, often offering preferred terms and discounts for shopping online. This also implies that over time, larger organizations will rely less on purchases in their home markets and more on international consumption.

The Nilson Report projects that the percentage of global purchase transactions conducted in the U.S. and Canada will decline from 48% to 38% from 2013 to 2023. Concurrently, according to The Nilson Report, the percentage of transactions conducted in Asia and Latin America will grow from 27% to 38%. The percentage of transactions conducted in EMEA - Europe, the Middle East and Africa - is predicted to remain relatively unchanged at about 23% to 24%. These trends, combined with growing consumer preference to use cards or digital payments over cash, have had a dramatic impact on the use of cash and checks as payment mechanisms.

A December 2013 Federal Reserve study noted that in 2012, debit card, credit card and ACH payments all exceeded the roughly 21.0 billion checks that were written, with checks accounting for about 17% of all non-cash payment transactions. By comparison, only two years earlier in 2010, checks accounted for about 25% of all non-cash payment transactions, according to the Federal Reserve, which estimates that the number of checks written contracted by roughly 8.8% per annum from 2009 to 2012.

Interestingly, the number of credit card payments, after declining slightly from 2006 to 2009, resumed growth from 2009 to 2012. In fact, the number of debit card payments increased at a faster clip than any other payment format from 2009 to 2012, according to Deluxe. Intuitively, we find this logical, as consumers view debit card payments as nearly equivalent to cash and have also displayed a growing preference to use alternative forms of payment rather than cash.

CRYPTO

GoverMedia's platform can process cryptocurrency transactions, enabling users to pay with bitcoin and other crypto. Introduced in 2009, Bitcoin was the first decentralized digital currency. One Bitcoin was worth roughly \$0.003 in early 2010, according to Coinmarketcap.com data. By September of 2017, the Bitcoin / dollar exchange rate had climbed to over \$4,000. Since Bitcoin, other cryptocurrencies such as Litecoin, Ethereum and Dash have emerged. At this point, there are more than 1,000 cryptocurrencies, which in the aggregate command a valuation of over \$445 billion, according to Coinmarketcap.com, despite recent volatility. The soaring valuation and perceived potential of both cryptocurrency and blockchain technology have generated substantial interest. Cryptocurrency has created tremendous rewards and challenges for investors. Nevertheless, given its early stages, many of the operational functions around these currencies are still in development.

GoverMedia recently formed a partnership with EXMO, one of Europe's largest cryptocurrency exchanges, which advances the company's strategy to integrate cryptocurrency-related and blockchain-based services in its ecosystem. GoverMedia will create a corporate account on the EXMO exchange, enabling its users to trade cryptocurrencies through the GoverMedia online ecosystem without having to leave it. The company expects this initiative to form a new high-margin revenue stream with minimal associated costs. Through a profit-sharing agreement, EXMO and GoverMedia will share all proceeds that GoverMedia users generate through the EXMO exchange. GoverMedia also expects to benefit from joint advertising towards EXMO's active user base, which encompasses more than 1.4 million active traders located in more than 200 countries.

Blockchain is separate and distinct from crypto. Blockchain is the underlying digital architecture that supports many digital cryptocurrencies, including Bitcoin, Ethereum and Litecoin. Blockchain is a decentralized and encrypted ledger that offers a secure method to store records and other information in a way that can be verified. Each block in the blockchain contains a hash a digital fingerprint or unique identifier and timestamped batches of prior transactions, as well as the hash of the previous block. The hash connects the blocks and prevents any block from being altered or inserted between two existing blocks. Each new block reinforces the verification of the previous block and therefore the overall blockchain. This characteristic is also believed to make it transparent if an attempted hacking tries alter any part of the blockchain.

However, blockchain technology has much broader applications. Among other features, it can be used to process transactions, manage medical records, and verify and confirm proof of ownership. Blockchain can also record and track intangible assets such as intellectual property, patents, copyrights, or branding. According to event-participant BTCS, "More than just the foundational basis for digital currency, the blockchain has the ability to impact all industries on a global basis that rely on or utilize record keeping and require trust."

According to CB Insights, “banking and payments aren't the only industries that could be affected by blockchain tech. Law enforcement, ride hailing, and many other sectors could also have blockchain in their future.” He presented a slide outlining the 30 large industries that CB Insights believes blockchain could transform.

30 Big Industries Blockchain Could Transform

1	Banking	16	Cloud Storage
2	Payments & Money Transfer	17	Energy Management
3	Cybersecurity	18	Sports Management
4	Education & Academia	19	Gift Cards & Loyalty Programs
5	Voting	20	Government & Public Records
6	Car Leasing & Sales	21	Gun Tracking
7	Networking & IoT	22	Wills & Inheritances
8	Forecasting	23	Retail
9	Music/Entertainment Rights & IP	24	Charity
10	Ride Sharing	25	Law Enforcement
11	Stock Trading	26	Human Resources
12	Real Estate	27	Business & Corporate Governance
13	Insurance	28	Credit Histories
14	Healthcare	29	3D Printing / Manufacturing
15	Supply Chain Management	30	Crowdfunding

Source: CB Insights

Blockchain and crypto are at early stages. Blockchain and cryptocurrencies are at extremely early stages of development at this point. Significant volatility in their trading patterns is likely, according to many trade publications. However, over the longer term, the volatility will be seen as blips instead of major movements. According to Amara's *Law*, “We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.” As noted earlier, the takeaway is that we are at the early stages of what many believe will be a major transition reflecting growing future adoption of crypto and blockchain.

Public companies well-equipped in the blockchain world. Public companies are equipped to participate in the blockchain world because they are accustomed to regulatory oversight and a myriad of administrative functions. Public companies are also generally subject to the reporting and other requirements and are set up to provide transparency to government regulators and their investors.

Advantage of decentralized architecture. With myriads of players contributing bandwidth in exchange for cryptocurrency, the architecture avoids reliance on one key central server provider. Among the many advantages, this configuration makes it more difficult to hack and can lead to cost reductions. Moreover, it also enhances the security around privacy.

Cryptocurrency has created tremendous rewards and challenges for investors. Nevertheless, given its early stages, many of the operational functions around these currencies are still in development. For example, it is difficult for individuals to acquire Bitcoins and other cryptocurrency at the moment for either commercial or investment purposes. Financial institutions such as JPMorgan Chase, Bank of America, Capital One Financial and Citigroup have decided not to process cryptocurrency purchases using credit cards, according to CNBC. One way to acquire the cryptocurrency is to “mine” it. In recent quarters, growing demand for crypto mining has driven revenue advances of technology companies that provide equipment or components to the crypto mining sector.

Blockchain

GoverMedia is developing services leveraging the use of blockchain. The blockchain market is forecast to grow to \$7.683 billion by 2022, up from \$241.9 million in 2016, according to a December 2017 study by market research firm Markets and Markets, a compound annual growth rate of 79.6%, reflecting rising demand for blockchain and valuation of cryptocurrencies. Increased regulatory oversight of cryptocurrency could drive demand for cryptocurrency accounting software and services.

According to IBM, blockchain architecture gives participants the ability to share a ledger that is updated, through peer-to-peer replication, every time a transaction occurs. Peer-to-peer replication means that each participant (node) in the network acts as both a publisher and a subscriber. Each node can receive or send transactions to other nodes, and the data is synchronized across the network as it is transferred. Blockchain is viewed as a secure option for financial transactions that also provides flexibility and scalability.

“Blockchain is a public ledger technology that uses digital signatures and cryptographic hashing to provide a record of secure transactions that cannot be altered,” according to [Techrepublic](#). Specifically, blockchain is thought to be safe, immutable and transparent because no single person or party within the chain can alter the record without the agreement of all parties in the chain.

To mine crypto, special mining software can enable a computer to act as a *node* on the blockchain in order to validate existing blocks within the chain and create new blocks. In success, miners are rewarded with cryptocurrency tokens for their own use. Mining computers aggregate myriads of transactions. Thus, the computing power required for the verification process exceeds the computing technology generally embedded in most home computers. This has also led to the formation of mining “pools,” in which multiple miners combine their processing power. Moreover, the complexity of the verification process increases as more blocks are added to the chain and more miners enter the mining pool.

Because only one miner or mining pool can confirm a block successfully, the verification effort has become a competitive process, as miners strive to obtain the crypto token reward ahead of others. Miners therefore are consistently boosting processing power to increase their chances. As a result, prospective miners need to invest in costly mining devices that provide sufficient processing power. Specialized mining computers are significantly more expensive than standard home computers, while at the same time, miners also incur substantial electricity costs to power and cool their equipment.

Given the expanding cryptocurrency market, it is generally expected that a growing number of countries will impose or tighten regulations, including improved tax reporting. For instance, in the U.S., the IRS is conducting an investigation of customers who traded Bitcoins on Coinbase, according to [Fortune](#) magazine. The Coinbase cryptocurrency exchange has been ordered to provide the IRS with information on all customers who engaged in transactions valued at \$20,000 or more from 2013 to 2015. According to Forbes, this likely impacts an estimated nearly nine million transactions made by more than 14,000 different account holders. Fortune notes that the IRS opened the investigation partially because only 802 people had reported their bitcoin gains or losses in 2015, despite the soaring price of Bitcoin over that period. Specifically, Bitcoin went from a value of about \$100 in early 2013 to a peak of nearly \$1,150 in 2015. In 2014, the IRS [stated](#) that virtual currency should be treated as property for federal tax purposes and that “General tax principles applicable to property transactions apply to transactions using virtual currency.”

According to [Forbes](#), “The IRS is concerned that many U.S. taxpayers may not be accurately reporting the gains or income they have generated from their cryptocurrency transactions. Since the majority of cryptocurrency transactions have likely resulted in significant gains due to the surge in value in most cryptocurrencies, coupled with the fact that the gains are likely short-term capital gains (subject to ordinary income tax rates) since the cryptocurrencies were likely held less than 12 months, the IRS has good reason to be concerned.”

Similar discussions are taking place in Russia, as well, according to trade publications. For example, [Russia Today](#) notes that, “the regulation of bitcoin and cryptocurrencies continues to draw conflicting actions among Russian government officials.” However, Russian president Vladimir Putin has indicated that cryptocurrency regulation likely will be implemented by July 1, 2018. The virtual currencies would be regulated under the “Digital Assets Regulation Bill.”

RECENT NEWS

On June 26, 2018, GoverMedia provided a business update, including that registered active users had reached 180,000

On June 20, 2018, GoverMedia Plus announced the full integration of cryptoprocessing payment technology within its ecosystem

GoverMedia Plus announced a commercial partnership with one of Europe’s largest crypto exchanges on June 15, 2018

On June 13, 2018, the company announced partnerships with the Latvian Chamber of Commerce and Kazan University of Technology

On June 6, 2018, GoverMedia Plus announced strategic steps to integrate blockchain technology, including within cryptocurrency transaction processing and accounting services provided to online retailers, among others

On May 15, 2018, GoverMedia Plus Canada announced that it had achieved several milestones, including attaining more than 140,000 total active users registered on the internet platform

On April 14, 2018, the company announced that it had listed on the Frankfurt Stock Exchange as of April 10, 2018.

GoverMedia Plus announced a podcast interview of its CEO on March 19, 2018

The company announced the formation of an advisory board on March 6, 2018

On March 1, 2018, GoverMedia Plus announced that it had completed its IPO

MANAGEMENT

CEO and Director

The company’s CEO, Roland J. Bopp, has extensive senior global corporate and operating experience in related areas including telecom, software and technology. He was chairman, president and CEO of Deutsche Telecom Americas, the New York, subsidiary of Deutsche Telekom, Germany. Deutsche Telekom, Germany is the largest telecommunication service company in Europe. In addition, he was also Managing Director of Mannesmann Corp., and a member of the Executive Management Board of Astrolink Inc.

Founder and Director

GoverMedia Plus' founder Leonid Afanasyev has 20 years of experience in the financial services sector and has a track record of creating successful start-up entities. In addition to his position with GoverMedia Plus, he is also the founder and director of Swiss-based asset management company Crown Capital Group SA, which was founded in 2007. As well, he was also the executive vice president of another Swiss-based financial firm, Dukre Asset Management SA where he was a portfolio manager for high net worth individuals. Earlier in his career, he was an investment advisor with both Morgan Stanley and Prudential Securities Corp. Moreover, he also set up a payment processing company that has forged a partnership with Munich-based WireCard AG.

Chief Financial Officer

CFO Arvin Ramos holds a degree in commerce and is a member of the Chartered Professional Accountants of Ontario, Canada. With more than 17 years of experience, he has supported companies in a broad range of industries, including mining, technology and banking, having served as CFO of various junior mining companies. He is also on the Board of Directors at Ateba Resources, Inc. and AireSurf Networks Holdings, Inc. Prior to GoverMedia, he served as a CFO and director at Kitrinor Metals, Inc., a Controller at Galaxy Resources Ltd., a CFO at Lithium One, Inc., and a CFO at Open Source Health, Inc.

Director

David Lane is an industry veteran with more than 25 years of experience as a start-up specialist with an expertise in raising capital. His various experience in senior management positions span several industries, including within the Oil and Gas sector, sports, financial services and pharmaceutical. Most recently, he was President and CEO of Quikflo Health. Prior to that, he was President and CEO of M-Pharmaceutical, a company that focused on a biomedical device for self-monitoring of glucose levels for diabetes patients. In addition, he was Head of Operations and Marketing for Great Northern Oil Sands, which trades on the NASDAQ. He was also the Chief Operations Manager of the Vancouver Whitecaps and the President of the Vancouver Angels, as well as CEO and President of Progressive Stock Reports.

Advisory Board Member

Roland Klose holds a PHD in business administration from Germany's University of Wuerzburg. He is a Professor for Strategic Management and Internationalization at the FOM, University for Applied Sciences, Essen and also a one of the speakers of DSW and Euro-shareholders. In addition, he serves as supervisory board member at the Berentzen Group AG and was previously a member of the advisory board at the DIPS, German Institute for Portfolio Strategy, Essen. He also served on the German Asia-Pacific Board, as well as the German-Design Council and is a fellow of the Baden-Baden entrepreneur's network. Currently, he is a partner of Jomec Group, heading the Group's M&A business in the Germany, focusing on the Chinese market.

Advisory Board Member

JJ Sendelbach has extensive experience in several sectors, including financial services, information technology and start-ups. He founded and is Managing Director of Doublejay Consulting, which is a boutique advisory firm to the consulting and technology industry that assists its clients with strategic and inorganic growth initiatives. He also serves on the advisory board of seven disruptive technology start-ups in the artificial intelligence and advanced analytics space in both the US and European markets. Prior to founding DJC in 2003, he was a partner at Droege & Company, the COO of Westdeutsche Landesbank and Managing Director of the Shared Services unit of Deutsche Bank North America, and a Senior Vice President of Deutsche Capital Markets.

Advisory Board Member

Kai Lauterjung has wide experience in the high-technology and telecommunications sectors and has been active in developing start-up companies, VC financings, M&A transactions and global expansions. He began his career at ANT Nachrichtentechnik as Head of Sales. He also served as CEO of Plenexis Holding GmbH and Managing Director of ND SatCom Managed Networks GmbH. He founded Romantis Group in Moscow and TK Energy GmbH in Germany.

FINANCIAL OVERVIEW

GoverMedia Russia was first established in August 2016 and it launched an enhanced platform in April of 2017, so it is still early days in the company's development, although GoverMedia strives to be an early mover in the blockchain space. The company has no recurring revenues at this time other than minimal interest income (see figure below). Nevertheless, management is optimistic that it will begin to generate operating revenue as it launches new services, but those will take time to gain traction as GoverMedia develops its market.

GoverMedia Russia expects to produce most of its revenues by marketing its services online to sellers, implying little need for a sizable internal salesforce. The company's early user base consists of approximately 180,000 registered users, up from 140,000 in May 2018.

POTENTIAL SCENARIOS

Base Case Assumptions

- The company's services begin to generate revenue in late 2018 as the platform develops.
- With little need for internal sales and marketing support, cost increases are moderate.

Aggressive Case Assumptions

- The company's services begin to generate revenue in late 2018 as the platform develops, and gain momentum into 2019 and beyond.

The TTM price-to-sales multiples of well-known online retail players range from 3.94x for e-Bay to 4.27x for online retail market leader Amazon. TTM price-to-sales multiples of other well-known online sites such as Facebook and Alibaba are significantly higher at 13.00x and 12.63x, respectively. The valuations accorded blockchain start-ups in their early days appear to be significantly higher, reflecting – we believe – the myriad of anticipated applications for blockchain technology such as 97.0x for Hive Blockchain Technologies. The average multiple of the companies presented in the table below is 8.5x.

GoverMedia Benchmark Valuations

Company	Ticker	P/Sales (TTM)
eBay Inc.	EBAY	3.94x
Amazon.com	AMZN	4.27x
Facebook	FB	13.00x
Alibaba	BABA	12.63x

Source: Yahoo Finance

If in success the company can attain \$10 to \$15 million in revenue per annum in the near-term, applying the 8.5x average multiple noted above and discounting it by 50% because it is still early days for GoverMedia would suggest to a market capitalization of roughly \$63.5 million to \$95.2 million on a trailing 12-month basis, all else remaining equal. Management believes it can attain revenue of \$10 million by 2021. If the company is correct, that would equate to a price per share of roughly \$1.56 to \$2.34 at that time. We believe, however, that the multiple likely will remain below in the near-to-medium term until there is greater evidence of the company potential traction. A multiple range of roughly 4.2x to 5.0x implies a price range of \$1.00 to \$1.25 in the medium-term on 2021E (per management's expectations) revenue.

CONCLUSION

The company is pursuing an ambitious growth strategy, although it is early in its development. We are optimistic about the growth of the Russian e-commerce sector and rising use of blockchain technology. We believe GoverMedia shares represent an option on management's ability to execute its strategy in a cost effective way and capitalize on the expected growing traction of its online ecosystem and platform. At this stage of the company's development, it is difficult to compare the company to more established players within the space in other markets, in our view. Specifically, we would expect GoverMedia to have a higher growth rate in these early years than many other players with longer histories *if its strategy is successful*.

That said, we believe the risk / reward ratio could be attractive for investors who want exposure to the sector and have a higher than average risk tolerance and longer time horizon. Moreover, there are only a few ways for investors to gain exposure to this space.

RISKS

Risks to the company's fundamentals and stock price include, among others:

- The company's services and online offerings might not gain traction as quickly as management expects.
- Competition is steep. GoverMedia might not be able to grow its user base or convert its users into active buyers as quickly as management expects.
- It may be early to purchase GoverMedia shares. Although the company is an early mover in the markets, the results of its initiatives might not become evident for some time, in our view.
- The development of its platform might take longer than expected.
- The company faces Russian market and economic risk.
- GoverMedia faces potential regulatory risk if the Russian government decides to impose new regulations on companies operating within the blockchain space.

FINANCIAL STATEMENTS

GoverMedia Results (\$)

	1/25/2017 Incorporation - 8/31/2017	2016	1Q17	2017	1Q18
Interest revenue	1,477	-	-		
Consulting fees and payroll expenses	82,928	9,312	5,632	191,664	129,031
Travel and administrative expenses	36,237	3,741	28,037	109,947	169,872
Professional fees	176,692	6,306	24,588	477,008	51,340
Stock-based compensation	185,563			185,562	249,933
Rent expense			2,026	66,478	69,994
Foreign exchange loss				4,548	11,156
Depreciation	-	-	-	979	530
Software development costs				148,301	
Impairment of intangible assets	-	-	-	148,210	-
Total expenses	481,420	19,359	60,283	1,332,697	681,856
Finance Cost		3,826		3,141	
Net loss	(479,943)	(23,185)	(60,283)	(1,335,838)	(681,856)
Foreign currency translation		(13)	(15,313)	(359)	3,951
Discounting loan impact		(22,449)			
Comprehensive loss	(479,943)	(723)	(44,970)	(1,335,479)	(685,807)
LPS	\$ (0.17)			\$ (0.12)	\$ (0.02)
Weighted average shares outstanding	2,863,637			11,128,830	40,743,219

Source: Company reports

GoverMedia Balance Sheet (\$)	Dec-17	Mar-18
Cash and cash equivalents	858,016	1,404,978
Prepaid expenses	37,706	372,278
Other receivables	2,113	1,640
Other assets	102,745	-
Total current assets	1,000,580	1,778,896
Equipment	10,511	21,577
Total assets	1,011,091	1,800,473
Accounts payable and accrued liabilities	450,778	180,518
Due to related party	1,000	1,000
Share subscription payable	811,940	-
Total current liabilities	1,263,718	181,518
Total liabilities	1,263,718	181,518
Total shareholders' equity/(deficiency)	(252,627)	1,618,955
Total liabilities and shareholders' deficiency	1,011,091	1,800,473

GoverMedia Cash Flow Statement (\$)

Six months ended March 31

	2018	2017
Net loss for the period	(681,856)	(60,283)
Depreciation	530	
Stock-based compensation	249,933	
Finance cost	-	
Unrealized foreign exchange (gain) loss	694	(20,389)
Change in non-cash operating working capital	<u>(506,625)</u>	<u>(86,004)</u>
Cash flows from operating activities	(937,324)	(166,676)
Proceeds from issuance of common shares, net of costs	2,307,456	
Proceeds received from share subscription payable	(811,940)	
Proceeds from related party	<u>-</u>	<u>195,836</u>
Cash flows from financing activities	1,495,516	195,836
Investment in equipment	<u>(11,596)</u>	<u>-</u>
Cash flows from investing activities	(11,596)	-
FX gain/(loss)	366	(18)
Increase in cash and cash equivalents	546,962	29,142

Source: Company reports

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