

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2018  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-50045

NEWGIOCO GROUP, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction  
of Incorporation or Organization)

33-0823179  
(I.R.S. Employer  
Identification No.)

130 Adelaide Street, West, Suite 701  
Toronto, Ontario, Canada M5H 2K4  
(Address of Principal Executive Offices) (Zip Code)

+39-391-306-4134  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of the issuer's common stock, as of the latest practicable date:  
There were 74,254,590 shares of Common Stock outstanding as of May 14, 2018.

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### Cautionary Statement Regarding Forward-Looking Statements

This report contains forward-looking statements. The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated gaming turnover, expenses, the outcome of contingencies, such as legal proceedings, and financial results. Factors that could cause our actual results of operations and financial condition to differ materially are discussed in greater detail under Item 1A - "Risk Factors" of this report.

We caution that the factors described herein and other factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances, except as required by federal securities laws. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

In this Form 10-K, unless the context indicates otherwise, references to "Newgioco Group" "our Company," "the Company," "we," "our," and "us" refer to Newgioco Group, Inc. a Delaware corporation, and its wholly-owned subsidiaries.

PART I

ITEM 1. FINANCIAL STATEMENTS

NEWGIOCO GROUP, INC.  
UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
THREE MONTHS ENDED MARCH 31, 2018

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NEWGIOCO GROUP, INC.  
Consolidated Balance Sheets  
(Unaudited)

Assets	March 31, 2018	December 31, 2017
<b>Current Assets</b>		
Cash and cash equivalents	\$ 7,190,209	\$ 6,469,858
Accounts receivable	53,302	116,489
Gaming accounts receivable	855,195	1,163,831
Prepaid expenses	173,836	87,692
Loan receivable – related party	48,089	—
Other current assets	21,466	12,543
<b>Total Current Assets</b>	<u>8,342,097</u>	<u>7,850,413</u>
<b>Noncurrent Assets</b>		
Restricted cash	602,936	587,905
Property, plant and equipment	429,334	280,111
Intangible assets	3,135,754	3,245,748
Goodwill	260,318	260,318
Investment in non-consolidated entities	350,000	1
<b>Total Noncurrent Assets</b>	<u>4,778,342</u>	<u>4,374,083</u>
<b>Total Assets</b>	<u>\$ 13,120,439</u>	<u>\$ 12,224,496</u>
<b>Current Liabilities</b>		
Line of credit - bank	\$ —	\$ 177,060
Accounts payable and accrued liabilities	1,566,985	1,606,560
Gaming accounts balances	2,064,851	1,274,856
Taxes payable	1,741,991	1,555,371
Advances from stockholders	1,076	547,809
Liability in connection with acquisition	145,897	142,245
Debentures, net of discount	598,511	1,148,107
Derivative liability	637,752	222,915
Promissory notes payable – other	—	100,749
Promissory notes payable – related party	318,078	318,078
Bank loan payable – current portion	125,723	121,208
<b>Total Current Liabilities</b>	<u>7,200,864</u>	<u>7,214,958</u>
Bank loan payable	340,160	362,808
Other long-term liabilities	613,438	532,680
<b>Total Liabilities</b>	<u>8,154,462</u>	<u>8,110,446</u>
<b>Stockholders' Equity</b>		
Common Stock, \$0.0001 par value, 80,000,000 shares authorized; 74,254,590 and 74,143,590 shares issued and outstanding *	7,426	7,415
Additional paid-in capital	14,402,339	14,254,582
Accumulated other comprehensive income	(314,845)	(250,327)
Accumulated deficit	(9,128,943)	(9,897,620)
<b>Total Stockholders' Equity</b>	<u>4,965,977</u>	<u>4,114,050</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 13,120,439</u>	<u>\$ 12,224,496</u>

\* The number of shares of common stock has been retroactively restated to reflect the 2-for-1 forward stock split effected on December 20, 2017.

See notes to consolidated financial statements

NEWGIOCO GROUP, INC.  
Consolidated Statements of Comprehensive Loss  
(Unaudited)

	For the Three Months ended March 31,	
	2018	2017
<b>Revenue</b>	\$ 8,593,867	\$ 3,875,201
<b>Costs and Expenses</b>		
Selling expenses	6,077,357	3,436,951
General and administrative expenses	2,059,453	1,197,571
<b>Total Costs and Expenses</b>	<u>8,136,810</u>	<u>4,634,522</u>
<b>Income (Loss) from Operations</b>	457,057	(759,321)
<b>Other Expenses (Income)</b>		
Interest expense, net of interest income	212,239	166,847
Changes in fair value of derivative liabilities	(254,289)	(144,626)
Imputed interest on related party advances	1,514	6,996
Gain on litigation settlement	(516,120)	—
Impairment on investment	—	6,468
<b>Total Other Expenses (Income)</b>	<u>(556,656)</u>	<u>35,685</u>
<b>Income (Loss) Before Income Taxes</b>	1,013,713	(795,006)
Income tax provision	245,036	47,110
<b>Net Income (Loss)</b>	<u>768,677</u>	<u>(842,116)</u>
<b>Other Comprehensive Income (Loss)</b>		
Foreign currency translation adjustment	<u>(64,518)</u>	<u>(70,203)</u>
<b>Comprehensive Income (Loss)</b>	<u>\$ 704,159</u>	<u>\$ (912,319)</u>
Income (loss) per common share – basic *	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
Income (loss) per common share – diluted *	<u>\$ 0.01</u>	<u>\$ (0.01)</u>
Weighted average number of common shares outstanding – basic *	<u>74,186,583</u>	<u>74,018,590</u>
Weighted average number of common shares outstanding – diluted *	<u>76,096,053</u>	<u>74,018,590</u>

\* The number of shares of common stock has been retroactively restated to reflect the 2-for-1 forward stock split effected on December 20, 2017.

See notes to consolidated financial statements

NEWGIOCO GROUP, INC.  
Consolidated Statements of Cash Flows  
(Unaudited)

	For the Three Months Ended March 31,	
	2018	2017
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$ 768,677	\$ (842,116)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities</b>		
Depreciation and amortization	158,357	136,499
Amortization of deferred costs	13,558	55,777
Non-cash interest	87,150	121,801
Imputed interest on advances from stockholders	1,514	6,996
Changes in fair value of derivative liabilities	(254,289)	(144,626)
Impairment (recovery) of assets	(516,120)	6,468
Bad debt expense	6,354	—
<b>Changes in Operating Assets and Liabilities</b>		
Prepaid expenses	(119,504)	(25,340)
Accounts payable and accrued liabilities	(60,647)	234,461
Accounts receivable	66,109	(78,276)
Gaming accounts receivable	331,802	(117,460)
Gaming accounts liabilities	756,469	(15,636)
Taxes payable	146,571	49,481
Other current assets	(8,983)	(618)
Customer deposits	53,684	14,607
Long term liability	13,329	7,324
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>1,444,031</b>	<b>(590,658)</b>
<b>Cash Flows from Investing Activities</b>		
Acquisition of property, plant, and equipment, and intangible assets	(182,858)	(55,325)
Increase in restricted cash	60	39
<b>Net Cash Used in Investing Activities</b>	<b>(182,798)</b>	<b>(55,286)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from (repayment of) bank credit line, net	(181,413)	60,424
Repayment of bank loan	(30,526)	(25,303)
Proceeds from debentures and convertible notes, net of repayment	126,849	226,117
Loan to related party	(48,039)	—
Advances from stockholders, net of repayment	(559,131)	(3,472)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(692,260)</b>	<b>257,766</b>
Effect of change in exchange rate	151,378	(13,091)
Net increase (decrease) in cash	720,351	(401,269)
Cash – beginning of the period	6,469,858	2,230,422
<b>Cash – end of the period</b>	<b>\$ 7,190,209</b>	<b>1,829,153</b>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the period for:		
Interest	\$ 118,301	64,053
Income tax	\$ 340,092	3,181

**Supplemental cash flow disclosure for non-cash activities**

Common shares issued for the acquisition of subsidiaries	—	—
Common shares issues to related parties for repayment of debt	—	—
Common shares issued for cashless exercise of warrants	—	—

See notes to consolidated financial statements

NEWGIOCO GROUP, INC.  
Notes to Consolidated Financial Statements  
(Unaudited)

1. Basis of Presentation and Nature of Business

Basis of Presentation

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission. In the opinion of management, the unaudited consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2018 and the results of operations and cash flows for the period ended March 31, 2018 and 2017. The financial data and other information disclosed in these notes to the interim financial statements related to these periods is unaudited. The results for the three months ended March 31, 2018 are not necessarily indicative of the results to be expected for any subsequent periods or for the entire year ending December 31, 2018. The balance sheet at December 31, 2017 has been derived from the audited financial statements at that date.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. These unaudited consolidated financial statements should be read in conjunction with our audited financial statements and notes thereto for the year ended December 31, 2017 as included in our Annual Report on form 10-K.

On December 20, 2017, the Company completed a two-for-one stock split effected in the form of a stock dividend. All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this two-for-one stock split. See Notes 2 and 11 for additional information about the stock split effected in the form of a stock dividend.

Nature of Business

Newgioco Group, Inc. ("Newgioco Group" or "the Company") was incorporated in the state of Delaware on August 26, 1998 as Pender International Inc. On September 30, 2005, the Company changed its name to Empire Global Corp., and on July 20, 2016 changed its name to Newgioco Group, Inc. The Company maintains its principal executive offices headquartered in Toronto, Canada with wholly owned subsidiaries in Italy and Austria.

Our subsidiaries include: Multigioco Srl ("Multigioco") which was acquired on August 15, 2014, Rifa Srl ("Rifa") which was acquired on January 1, 2015, as well as Ulisse GmbH ("Ulisse") and Odissea Betriebsinformatik Beratung GmbH ("Odissea") which were both acquired on July 1, 2016.

Newgioco Group is now a vertically integrated company which owns and operates an innovative, certified Betting Platform Software ("BPS") and offering a complete suite of online and offline leisure gaming services including a variety of lottery and casino gaming, as well as sports betting through a distribution network of retail betting locations situated throughout Italy.

2. Summary of Significant Accounting Policies

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company transactions are eliminated upon consolidation.

Certain amounts of prior periods were reclassified to conform with current period presentation.



#### b) Use of estimates

The preparation of the financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates. These estimates and assumptions include valuing equity securities issued in share-based payment arrangements, determining the fair value of assets acquired, allocation of purchase price, impairment of long-lived assets, the collectability of receivables and the value of deferred taxes and related valuation allowances. Certain estimates, including evaluating the collectability of receivables and advances, could be affected by external conditions, including those unique to our industry, and general economic conditions. It is possible that these external factors could have an effect on our estimates that could cause actual results to differ from our estimates. We re-evaluate all of our accounting estimates at least quarterly based on these conditions and record adjustments when necessary.

#### c) Goodwill

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. Goodwill is not being amortized but is reviewed at least annually for impairment. In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we proceed to a two-step process to test goodwill for impairment including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value for our reporting units is determined using an income or market approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

There was no goodwill impairment recorded as a result of the last quantitative assessment in the fourth quarter of 2017.

#### d) Loss Contingencies

We may be subject to claims, suits, government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, indirect taxes, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our website platforms, and other matters. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is both probable that a loss has been incurred, and the amount can be reasonably estimated. If we determine that a loss is possible, and a range of the loss can be reasonably estimated, we disclose the range of the possible loss in the Notes to the Consolidated Financial Statements.

We evaluate, on a monthly basis, developments in our legal matters that could affect the amount of liability that has been previously accrued, and the matters and related ranges of possible losses disclosed and make adjustments and changes to our disclosures as appropriate. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters. Until the final resolution of such matters, there may be an exposure to loss in excess of the amount recorded, and such amounts could be material. Should any of our estimates and assumptions change or prove to have been incorrect, it could have a material impact on our business, consolidated financial position, results of operations, or cash flows.

To date, none of these types of litigation matters, most of which are typically covered by insurance, has had a material impact on our operations or financial condition. We have insured and continue to insure against most of these types of claims.

#### e) Business Combinations

We allocate the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

#### f) Long-Lived Assets

We evaluate the carrying value of our long-lived assets for impairment by comparing the expected undiscounted future cash flows of the assets to the net book value of the assets when events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. If the expected undiscounted future cash flows are less than the net book value of the assets, the excess of the net book value over the estimated fair value will be charged to earnings.

Fair value is based upon discounted cash flows of the assets at a rate deemed reasonable for the type of asset and prevailing market conditions, appraisals, and, if appropriate, current estimated net sales proceeds from pending offers.

#### g) Derivative Financial Instruments

The Company does not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. The Company evaluates all of its financial instruments, including convertible notes and stock purchase warrants, to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income.

For option-based simple derivative financial instruments, the Company uses the Black-Scholes option-pricing model to value the derivative instruments at inception and subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period.

#### h) Earnings Per Share

FASB ASC 260, "Earnings Per Share" provides for calculation of "basic" and "diluted" earnings per share. Basic earnings per share includes no dilution and is computed by dividing net income (loss) available to common shareholders by the weighted average common shares outstanding for the period. Diluted earnings per share reflect the potential dilution of securities that could share in the earnings of an entity similar to fully diluted earnings per share. These potentially dilutive securities were not included in the calculation of loss per share for the three months ended March 31, 2018 because the effect would have been anti-dilutive. Accordingly, basic and diluted loss per common share is the same for three months ended March 31, 2018.

On December 20, 2017, the Company completed a two-for-one stock split effected in the form of a stock dividend. All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect this two-for-one stock split.

#### i) Currency translation

Since the Company's subsidiaries operate in Europe, the subsidiaries functional currency is the Euro. In the consolidated financial statements, revenue and expense accounts are translated at the average rates during the period, and assets and liabilities are translated at period-end rates and equity accounts are translated at historical rate. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity. Gains and losses from foreign currency transactions are recognized in current operations.

#### j) Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 ("ASC Topic 606") supersedes the existing revenue recognition guidance and is effective for interim and annual reporting periods beginning after December 15, 2017. The Company has adopted ASC Topic 606 on January 1, 2018 and has determined that the new standard does not have a material impact on the nature and timing of revenues recognized.

Revenues from sports-betting, casino, cash and skill games, slots, bingo and horse race wagers represent the gross pay-ins (also referred to as Turnover) from customers less gaming taxes and payouts to customers. Revenues are recorded when the game is closed which is representative of the point in time at which the Company has satisfied its performance obligation. In addition, the Company receives commissions from the sale of scratch tickets and other lottery games. Commissions are recorded when the ticket for scratch off tickets and lottery tickets are sold.

Revenues from the Betting Platform Software ("BPS") include license fees, training, installation, and product support services. Revenue is recognized when transfer of control to the customer has been made and the Company's performance obligation has been fulfilled. License fees are calculated as a percentage of each licensee's level of activity and are contingent upon the licensee's usage. The license fees were recognized on an accrual basis as earned.

#### k) Cash and equivalents

The Company considers all highly liquid debt instruments with maturities of three months or less at the time acquired to be cash equivalents. Cash equivalents represent short-term investments consisting of investment-grade corporate and government obligations, carried at cost, which approximates market value. The Company had no cash equivalents as of March 31, 2018 and December 31, 2017.

The Company primarily places its cash with high-credit quality financial institutions located in the United States which is insured by the Federal Deposit Insurance Corporation, in Canada which is insured by the Canadian Deposit Insurance Corporation, in Italy which is insured by the Italian government and in Germany which is a member of the Deposit Protection Fund of the Association of German Banks (Einlagensicherungsfonds des Bundesverbandes deutscher Banken).

#### l) Gaming accounts receivable

Gaming accounts receivable represents gaming deposits made by customers to their online gaming accounts either directly by credit card, bank wire, e-wallet or other accepted method through one of our websites or indirectly by cash collected at the cashier of a betting shop but not yet credited to our bank accounts and subject to normal trade collection terms without discounts. The Company periodically evaluates the collectability of its gaming accounts receivable and considers the need to record or adjust an allowance for doubtful accounts based upon historical collection experience and specific customer information. Actual amounts could vary from the recorded estimates. The Company does not require collateral to support customer receivables. The company recorded bad debt expense of \$6,354 and \$NIL for the three months ended March 31, 2018 and March 31, 2017, respectively. All balances previously recorded as allowance for doubtful accounts were written off as uncollectible.

#### m) Gaming account balances

Gaming account balances represent customer balances, including winnings and deposits, that are held as credits in online gaming accounts and have not as of yet been used or withdrawn by the customers. Customers can request payment from the Company at any time and the payment to customers can be made through bank wire, credit card, or cash disbursement from one of our locations. Online gaming account credit balances are non-interest bearing.

#### n) Fair Value Measurements

ASC Topic 820, Fair Value Measurement and Disclosures, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

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

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs in which little or no market data exists, therefore developed using estimates and assumptions developed by us, which reflect those that a market participant would use.

The carrying value of the Company's short-term investments, prepaid expenses, accounts receivables, other current assets, accounts payable and accrued liabilities, gaming account balance, and advances from shareholder approximate fair value because of the short-term maturity of these financial instruments.

The derivative liability in connection with the conversion feature of the convertible debt and warrants is classified as a level 3 liability and is the only financial liability measured at fair value on a recurring basis.

The change in the Level 3 financial instrument is as follows:

Balance at December 31, 2016	\$	211,262
Issued during the year ended December 31, 2017		268,884
Exercised during the year ended December 31, 2017		—
Change in fair value recognized in operations		(257,231)
Balance at December 31, 2017	\$	222,915
Issued during the three months ended March 31, 2018		669,126
Exercised during the three months ended March 31, 2018		—
Change in fair value recognized in operations		(254,289)
Balance at March 31, 2018	\$	637,752

o) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses. Expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the statement of income as incurred.

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Amortization commences from the time an asset is put into operation. The range of the estimated useful lives is as follows:

Trademarks / names	14 years
Office equipment	5 years
Office furniture	8 1/3 years
Signs and displays	5 years

p) Leases

Leases are reviewed and classified as capital or operating at their inception in accordance with ASC Topic 840, Accounting for Leases. For leases that contain rent escalations, the Company records rent expense on the straight-line method. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent account and is included in accrued expenses and other current liabilities.

All lease agreements of the Company as lessees are accounted for as operating leases as of March 31, 2018 and 2017.

q) Income Taxes

We use the asset and liability method of accounting for income taxes in accordance with ASC Topic 740, "Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year and (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is provided to reduce the deferred tax assets reported if based on the weight of the available positive and negative evidence, it is more likely than not some portion or all of the deferred tax assets will not be realized.

ASC Topic 740.10.30 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC Topic 740.10.40 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We have no material uncertain tax positions for any of the reporting periods presented.

The Company has elected to include interest and penalties related to uncertain tax positions, if determined, as a component of income tax expense.

In Italy, tax years beginning 2012 forward, are open and subject to examination, while in Austria companies are open and subject to inspection for 5 years and 10 years for inspection of serious infractions. The Company is not currently under examination and it has not been notified of a pending examination.

r) Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources, including foreign currency translation adjustments and unrealized gains and losses on marketable securities.

The Company adopted FASB ASC 220-10-45, "Reporting Comprehensive Income". ASC 220-10-45 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and unrealized gains (losses) on available for sale marketable securities; foreign currency translation adjustments and changes in market value of future contracts that qualify as a hedge; and negative equity adjustments.

s) Investment in Non-Consolidated Entities

Investments in non-consolidated entities are accounted for using the equity method or cost basis depending upon the level of ownership and/or the Company's ability to exercise significant influence over the operating and financial policies of the investee. When the equity method is used, investments are recorded at original cost and adjusted periodically to recognize the Company's proportionate share of the investees' net income or losses after the date of investment. When net losses from an investment are accounted for under the equity method exceed its carrying amount, the investment balance is reduced to zero and additional losses are not provided for. The Company resumes accounting for the investment under the equity method if the entity subsequently reports net income and the Company's share of that net income exceeds the share of net losses not recognized during the period the equity method was suspended. Investments are written down only when there is clear evidence that a decline in value that is other than temporary has occurred.

The Company's investment in Zoompass Holdings Inc. and Intesa Sanpaolo Bank were accounted for at cost. The Company monitors its investment for impairment annually and makes appropriate reductions in the carrying value if it determines that an impairment charge is required based on qualitative and quantitative information.

t) Recent Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 740): Recognition and Measurement of Financial Assets and Financial Liabilities. The provisions of this update are effective for annual and interim reporting periods beginning after December 15, 2017. ASU 2016-01 enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The adoption of ASU 2016-01 does not have any material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02) which amends the FASB Accounting Standards Codification and created Topic 842, "Leases." Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provides for enhanced disclosures. Leases will continue to be classified as either finance or operating. ASU 2016-02 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2018. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. Full retrospective application is prohibited and early adoption by public entities is permitted. The Company is currently in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718), Scope of Modification Accounting. The amendments in this Update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this Update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of ASU 2017-09 does not have any material impact on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity's own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. The amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently assessing the impact of ASU 2016.

There are no other recently issued accounting standards that are expected to have a material effect on our financial condition, results of operations or cash flows.

### 3. Acquisition of betting software technology; offline and land-based gaming assets

#### Odissea Betriebsinformatik Beratung GmbH ("Odissea") Acquisition

On June 30, 2016, the Company entered into a Share Exchange Agreement ("Odissea SPA"), which closed on July 1, 2016, with the shareholders of Odissea organized under the laws of Austria. Odissea operates a proprietary Betting Operating System. Pursuant to the agreement, the Company issued 8,772,200 shares of common stock in consideration for 100% of the issued and outstanding shares of Odissea. As a result of this acquisition, the sellers now hold approximately 11.81% of the issued and outstanding shares of common stock of the Company.

Pursuant to the Odissea SPA, upon completion of certification of the Betting Operating System by the ADM, which was obtained on June 30, 2017, the sellers may exercise the option to resell to the Company 50% of the shares of common stock issued in consideration for the purchase price (or 4,386,100 shares) at a fixed price of U.S. \$0.50 per share (the "Odissea Put Option"). As of the date of this report, the Odissea Put Option has been extended indefinitely by mutual consent.

The purchase price was allocated to the fair market value of tangible and intangible assets acquired and liabilities assumed. Intangible assets will be amortized over their remaining useful life as follows:

		Remaining Useful Life
Current assets	\$ 210,505	
Property, Plant and Equipment	30,638	
Identifiable intangible assets:		
Betting Operating System	1,685,371	15 years
Less: liabilities assumed	(215,935)	
Total identifiable assets less liabilities assumed	1,710,579	
Total purchase price	1,710,579	
Excess purchase price	\$ —	

#### Ulisse GmbH ("Ulisse") Acquisition

On June 30, 2016, the Company entered into a Share Exchange Agreement ("Ulisse SPA"), which closed on July 1, 2016, with the shareholders of Ulisse organized under the laws of Austria. Ulisse operates an existing network of approximately 170 land-based Agency locations. Pursuant to the agreement, the Company issued 3,331,200 shares of common stock in consideration for 100% of the issued and outstanding shares of Ulisse. As a result of this acquisition, the sellers now hold approximately 4.49% of the issued and outstanding shares of common stock of the Company.

Pursuant to the Ulisse SPA, subject to a purchase price adjustment to equal two times earnings before income taxes calculated on a pro rata basis from the Closing Date upon completion of the ADM license tender auction and the Rights obtained by the Company are assigned to the Ulisse locations the sellers may exercise the option to resell to the Company 50% of the shares of common stock (or 1,665,600 shares) issued in consideration for the purchase price at a fixed price of U.S. \$0.50 per share (the "Ulisse Put Option"). As of the date of this report, the Ulisse Put Option has been extended indefinitely by mutual consent.

The purchase price was allocated to the fair market value of tangible and intangible assets acquired and liabilities assumed. Intangible assets will be amortized over their remaining useful life as follows:

		Remaining Useful Life
Current assets	\$ 984,647	
Property, Plant and Equipment	2,917	
Identifiable intangible assets:		
Customer relationships	83,996	10 years
Less: liabilities assumed	(421,976)	
Total identifiable assets less liabilities assumed	649,584	
Total purchase price	649,584	
Excess purchase price	\$ —	

The Company has estimated the fair value of assets acquired and liabilities assumed in connection with acquisitions and is currently undergoing a formal valuation and upon completion of the third-party valuation will adjust these estimates accordingly.

#### 4. Intangible Assets

Intangible assets consist of the following:

	March 31, 2018	December 31, 2017	Life (years)
Betting Platform Software	\$ 1,685,371	\$ 1,685,371	15
Licenses	970,422	967,328	1.5 - 7
Location contracts	1,000,000	1,000,000	5 - 7
Customer relationships	870,927	870,927	10 - 15
Trademarks/names	110,000	110,000	14
Websites	40,000	40,000	5
	<u>4,676,720</u>	<u>4,673,626</u>	
Accumulated amortization	<u>(1,540,966)</u>	<u>(1,427,878)</u>	
Balance	<u>\$ 3,135,754</u>	<u>\$ 3,245,748</u>	

The Company evaluates intangible assets for impairment on an annual basis during the last month of each year and at an interim date if indications of impairment exist. Intangible asset impairment is determined by comparing the fair value of the asset to its carrying amount with an impairment being recognized only when the fair value is less than carrying value. The amortization expense was \$113,088 and \$110,188 for the three months ended March 31, 2018 and March 31, 2017, respectively.

Licenses obtained by the Company in the acquisitions of Multigioco and Rifa include a GAD online license as well as a Bersani and Monti land-based licenses issued by the Italian gaming regulator to Multigioco and Rifa, respectively.

## 5. Restricted Cash

Restricted Cash is cash held in a segregated bank account at Intesa Sanpaolo Bank S.p.A. ("Intesa Sanpaolo Bank") as collateral against our operating line of credit with Intesa Sanpaolo Bank as well as Wirecard Bank as a security deposit for Ulisse betting operations.

## 6. Other long term liabilities

Other long term liabilities represents the Italian "Trattamento di Fine Rapporto" (TFR) which is a severance amount set up by Italian companies to be paid to employees on termination or retirement as well as shop deposits that are held by Ulisse.

Balances of Other long term liabilities were as follows:

	March 31, 2018	December 31, 2017
Severance liability	\$ 148,634	\$ 131,904
Customer deposit balance	464,804	400,776
Total other long term liabilities	<u>\$ 613,438</u>	<u>\$ 532,680</u>

## 7. Line of Credit – Bank

The Company currently maintains an operating line of credit for a maximum amount of EUR 300,000 (approximately U.S. \$369,180) for Multigioco and EUR 50,000 (approximately U.S. \$61,530) for Rifa from Intesa Sanpaolo Bank in Italy. The line of credit is secured by restricted cash on deposit at Intesa Sanpaolo Bank and guaranteed by certain shareholders of the Company and bears a fixed rate of interest at 5% per annum on the outstanding balance with no minimum payment, maturity or due date.

## 8. Liability in connection with acquisition

Liability in connection with acquisition represent non-interest-bearing amount due by the Company's subsidiaries toward the purchase price as per a purchase agreement between Newgioco Srl and the Company's subsidiaries. The Company's shareholder and VP of Regulatory Affairs, Beniamino Gianfelici, owns 50% shares of Newgioco Srl.

## 9. Related party transactions and balances

### Loan Receivable - related party

On February 28, 2018, the Company provided a loan of EUR 39,048 (approximately U.S. \$48,090) to Engage IT Services Srl, a company in which Luca Pasquini holds a 34% stake. This loan was advanced for the purpose of financing third-party betting agencies. It bears interest at 4.47% and is due on October 31, 2018.

Advances from stockholders represent non-interest-bearing loans that are due on demand. Interest was imputed at 5% per annum. Balances of Advances from stockholders are as follows:

	March 31, 2018	December 31, 2017
Gold Street Capital Corp.	\$ 58,384	\$ 41,143
Doriana Gianfelici	60,302	58,792
Luca Pasquini	(117,610)	(119,939)
Other stockholders	—	567,813
Total advances from stockholders	<u>\$ 1,076</u>	<u>\$ 547,809</u>



During the three months ended March 31, 2018, Gold Street, the major stockholder of Newgioco Group, advanced \$17,241 to the Company, net of repayment of \$43,460. Also, the Company paid management fees to Gold Street Capital Corp. of \$36,000 for the three months ended March 31, 2018.

Changes in advances from Doriana Gianfelici were due to the fluctuations in foreign exchange rates.

The Company advanced a short-term loan of EUR 100,000 (approximately U.S. \$123,060) to Luca Pasquini to cover fees related to an application for a gaming license in Malta. As of the date of this report the application is pending, there is no assurance that the gaming license in Malta would be obtained. This loan is non interest-bearing and is due on June 30, 2018. Changes in the balance of the loan were due to the fluctuations in foreign exchange rates. During the three months ended March 31, 2018, Luca Pasquini advanced \$5,408 to the Company.

During the three months ended March 31, 2018, the Company paid management fees of \$5,532 to Luca Pasquini. Also, the Company paid service fees of EUR 120,000 (approximately U.S. \$147,516) to Ulisse Services Ltd., a company owned by Luca Pasquini. Accounts payable and accrued liabilities include EUR 40,000 (approximately U.S. \$49,172) payable to Ulisse Services Ltd.

Advances from other stockholders comprised of the dividend accrued to former stockholders of Ulisse for the six-month period prior to the acquisition of Ulisse on July 1, 2016.

The amounts due to the stockholders at March 31, 2018 are non-interest bearing and due on demand.

#### Related-Party Debt

Promissory notes payable to related parties of \$318,078 represents amounts due to Braydon Capital Corp., a company owned by Claudio Ciavarella, the brother of our CEO. These notes bear interest at a rate of 1% per month and have no fixed maturity date. Accounts payable and accrued liabilities include \$78,628 in accrued interest on these notes.

#### 10. Investment in Non-Consolidated Entities

Investments in non-consolidated entities consists of the following:

	March 31, 2018	December 31, 2017
2336414 Ontario Inc	\$ —	\$ 875,459
Banca Veneto	—	1
Zoompass Holdings Inc.	350,000	—
	<u>350,000</u>	<u>875,459</u>
Less impairment	—	(875,459)
Total investment in non-consolidated entities	<u>\$ 350,000</u>	<u>\$ 1</u>

On December 9, 2014, the Company invested CDN \$1,000,000 (approximately U.S. \$778,150) in a private placement of common shares of 2336414 Ontario Inc. ("2336414") representing 666,664 common shares or 2.3% of 2336414. 2336414 is an Ontario corporation and the parent company of Paymobile Inc. a carrier-class, PCI compliant transaction platform, delivering Visa prepaid card programs for social disbursements, corporate payroll and check replacement.

The Company subscribed for 666,664 Units (CDN \$1,000,000) (approximately U.S. \$778,150), with each Unit being comprised of one (1) common share in the capital of 2336414 and one-quarter (1/4) of one common share purchase warrant, which will require four quarter warrants to acquire one additional common share in the capital of 2336414, for CDN \$2.25 within 18 months after the closing of the Offering, or such longer period of time as 2336414 may determine.

The Company paid CDN \$1,000,000 (approximately \$875,459) in cash, and obtained a promissory note from 2336414's subsidiary, Paymobile Inc. On December 31, 2014 the Company set up a 100% impairment on the investment in 2336414 because Paymobile did not produce any meaningful income and the Company determined that it may not be able to realize its investment in 2336414.

In August 2016, 2336414 transferred its interest in Paymobile to Zoompass Holdings, Inc a Nevada corporation ("Zoompass"). On March 31, the Company entered into a Settlement Agreement with 2336414, Paymobile and Edward Yew (a director of 2336414) to forgive the amount due by the Company to Paymobile under the promissory note. Pursuant to the terms and conditions of the Settlement Agreement, the Company received 2,500,000 shares of common stock in Zoompass which has been reflected as an investment in non-consolidated entities. Additionally, Paymobile agreed to discharge debt and interest of \$210,065.57. In connection with the settlement, the Company recorded a gain on litigation settlement of \$516,120. See also Note 13.

On December 31, 2017, the Company recorded an impairment of \$1 for the shares of Banca Veneto held.

We carried the value of the shares of Banca Veneto and Zoompass at cost less impairment. The Company accounts for investment in non-consolidated entities using the cost method of accounting if the Company has an ownership interest below 20% and does not have the ability to exercise significant influence over an investee. The shares of Banca Veneto and Zoompass do not have an active market.

#### 11. Stockholders' Equity

On November 28, 2017, the Board of Directors approved a 2 for 1 forward split of our common stock. The common stock dividend payment date was December 20, 2017 to stockholders of record as at December 18, 2017. Share and per-share amounts disclosed as of March 31, 2018 and for all other comparative periods provided have been retroactively adjusted to reflect the effects of the stock split.

In connection to the debenture units issued on February 26, 2018 the Company issued an aggregate of 111,000 shares of common stock at 100% of the market price to the debenture holders. See also Note 12.

#### 12. Debentures and Convertible Notes\*

\* The conversion price of the convertible debentures per share of common stock has been retroactively restated to reflect the 2-for-1 forward stock split effected on December 20, 2017.

Debentures and convertible notes outstanding include the following:

	March 31, 2018	December 31, 2017
February 29, 2016 and April 4, 2016 Convertible Notes	\$ —	\$ 750,000
January 24, 2017 Debenture, net of discount of \$5,723 and \$7,446	133,885	136,032
March 27, 2017 Convertible Debenture, net of discount of \$40,818 and \$50,994	75,522	68,571
June 5, 2017 Convertible Debenture, net of discount of \$60,010 and \$72,541	56,330	47,024
June 9, 2017 Convertible Debenture, net of discount of \$30,608 and \$36,940	27,562	22,842
November 6, 2017 - December 11, 2017 Convertible Debentures, net of discounts of \$47,839 and \$55,063	149,939	148,198
January 16, 2018 - February 26, 2018 Convertible Debentures, net of discount of \$707,194	235,159	—
	678,397	1,172,667
Less: unamortized debt issuance costs	(79,886)	(24,560)
	<u>\$ 598,511</u>	<u>\$ 1,148,107</u>

## February 29, 2016 and April 4, 2016 Convertible Notes

On February 29, 2016, the Company closed a Securities Purchase Agreement with an unaffiliated private investor, to raise up to \$750,000. The Company received gross proceeds from the initial private placement of \$600,000. On April 4, 2016, the Company received the balance of gross proceeds of \$150,000, less legal expenses of \$15,000. Also, the company paid \$75,000 in commissions for these notes. As part of the purchase agreement, the Company also issued a warrant to purchase 326,088 shares of Company's common stock at \$0.575 per share. These notes bear an interest rate of 12% per annum and were due in one year. The company continued to accrue interest at 22% past the due date. The notes were guaranteed by Confidi Union Impresa, an unrelated party.

During the three months ended March 31, 2018, the Company paid a total of \$1,027,351, including penalty and interest towards the consent judgement related to the Settlement Agreement with the investor dated May 15, 2017. Accounts payable and accrued liabilities included an accrued interest on this Note of \$8,425 at March 31, 2018 and \$139,041 at December 31, 2017. See also Note 19 Subsequent Events.

## January 24, 2017 Debenture

On January 24, 2017, the Company received gross proceeds from the initial private placement of CDN \$180,000 (approximately U.S. \$140,067) with a group of accredited investors. The Company incurred a total of CDN \$14,400 (approximately U.S. \$11,205) in finder's fees to facilitate this transaction for net proceeds of CDN \$165,600 (approximately U.S. \$128,862). The debenture bears an interest rate of 10% per annum and is due in two years. As part of the purchase agreement, the Company also issued a warrant to purchase 36,000 of the Company's common stock at \$0.50 per share up to January 24, 2019. See also Note 15. Subsequent to the period covered by this report, the Debentures and Warrants issued on January 24, 2017 have been cancelled and re-issued under the same terms as the debenture units issued on February 26, 2018 as set out below. See also Note 19 Subsequent Events.

## March 27, 2017 to January 31, 2018 Convertible Debentures

On March 27, 2017, the Company entered into private placement agreements with a group of accredited investors pursuant to which each CDN \$1,000 debenture unit is comprised of a convertible debenture that bears an interest rate of 10% per annum due two years from the closing date and 100 warrants to purchase one common share of the Company's common stock at a price of \$0.50 per share per warrant up to two years from the closing date. The debenture is convertible in whole or in part into shares of common stock of the Company at a price of \$0.75 per share at any time up to two years from the closing date. In addition, the Company paid finders fees equal to 5% of the gross proceeds received. See also Note 15.

Between March 27, 2017 and January 31, 2018, the Company received gross proceeds of CDN \$1,175,000 (approximately U.S. \$914,327) in multiple tranches in connection with the June 5, 2017 private placement agreement. The Company incurred a total of CDN \$58,750 (approximately U.S. \$45,716) in finder's fees to facilitate this transaction for net proceeds of CDN \$1,116,250 (approximately U.S. \$868,610). The issuance dates for these convertible debentures with corresponding gross proceeds in Canadian dollars are as follows:

Issuance Date	Gross Proceeds	
	(CDN)	(approx. USD)
March 27, 2017	\$ 150,000	\$ 116,723
June 5, 2017	150,000	116,723
June 9, 2017	75,000	58,361
November 6, 2017	90,000	70,033
November 14, 2017	50,000	38,908
November 15, 2017	20,000	15,563
November 22, 2017	30,000	23,345
December 5, 2017	40,000	31,126
December 11, 2017	25,000	19,454
January 16, 2018	205,000	159,521
January 19, 2018	130,000	101,160
January 31, 2018	210,000	163,412
	<u>\$ 1,175,000</u>	<u>\$ 914,327</u>

Subsequent to the period covered by this report, the Debentures and Warrants issued between March 27, 2017 and January 31, 2018 have been cancelled and re-issued under the same terms as the debenture units issued on February 26, 2018 as set out below. See also Note 19 Subsequent Events.

#### February 26, 2018 Convertible Debenture

On February 26, 2018, the Company closed a private placement agreement with a group of accredited investors to raise up to CDN \$1,800,000 (approximately U.S. \$1,396,080). The Company received gross proceeds from the initial private placement of CDN \$670,000 (approximately U.S. \$519,652). The Company incurred a total of CDN \$33,500 (approximately U.S. \$25,982) in finder's fees to facilitate this transaction for net proceeds of CDN \$636,500 (approximately U.S. \$493,669) as well as 5% of the gross amount in broker warrants with terms identical to the debenture's warrants. The convertible debenture bears an interest rate of 10% per annum and is due in two years. As part of the purchase agreement, the debenture is convertible at the lesser price of \$0.75 or the proposed IPO price at any time up to February 26, 2020.

The commissions and finders' fees related to the notes and debentures were amortized over the life of the notes.

The Company has determined that the conversion feature embedded in the convertible notes and debentures constitutes a derivative and has been bifurcated from the note and recorded as a derivative liability, with a corresponding discount recorded to the associated debt, on the accompanying balance sheet, and revalued to fair market value at each reporting period. See Note 16.

Warrants issued in relation to the debentures and promissory notes are discussed in Note 15.

#### 13. Promissory Notes Payable – Other

On December 9, 2014, the Company obtained a promissory note for CDN \$500,000 (approximately U.S. \$389,075) from Paymobile Inc., a subsidiary of 2336414 Ontario Inc. ("2336414") of which the Company owned 666,664 common shares, that bears interest at a rate of 1% per month on the outstanding balance.

On March 31, 2018, the Company entered into a Settlement Agreement with 2336414, Paymobile and Zoompass. Pursuant to the terms and conditions of the Settlement Agreement, CAN \$210,066 (approximately U.S. \$162,927), in principal and accrued interest was forgiven and written off.

#### 14. Bank Loan Payable

On September 30, 2016, the Company obtained a loan of EUR 500,000 (approximately U.S. \$618,100) from Intesa Sanpaolo Bank in Italy, which is secured by the Company's assets. The loan is amortized over 57 months ending September 30, 2021 with repayment started on January 31, 2017 in monthly installments of EUR 9,760 (approximately U.S. \$12,065) with an underlying interest rate of 4.5 points above Euro Inter Bank Offered Rate ("EURIBOR"), subject to quarterly review.

The company repaid EUR 4,446 (approximately U.S. \$5,465) during the three months ended March 31, 2018.

#### 15. Warrants\*

\* The exercise price of the warrants per share of common stock has been retroactively restated to reflect the 2-for-1 forward stock split effected on December 20, 2017.

On February 29, 2016, as per a Securities Purchase Agreement, the Company issued a warrant to purchase 260,870 shares of the Company's common stock at \$0.575 per share which may be exercised by the warrant holder between August 28, 2016 and February 28, 2019 (See Note 12). The warrant was issued in connection with the February 29, 2016 convertible Promissory Note.

On April 4, 2016, the Company issued a warrant to purchase 125,218 shares of the Company's common stock at \$0.575 per share which may be exercised by the warrant holder until April 4, 2019 (See Note 12). The warrant was issued in connection with the April 4, 2016 Convertible Promissory Note.

On April 4, 2016, the Company issued a warrant to purchase 124,440 shares of the Company's common stock at \$0.575 per share which may be exercised by the warrant holder until April 4, 2019. The warrant was issued to the placement agent in relation to securing the February 29, 2016 and April 4, 2016 convertible Promissory Notes (See Note 12).

On January 24, 2017, the Company issued a warrant to purchase 36,000 of the Company's common stock at \$0.50 per share which may be exercised by the warrant holder from June 24, 2017 until January 24, 2019. The warrant was issued in connection with the January 24, 2017 Debenture (See Note 12).

In connection with the private placement agreements entered into with a group of accredited investors between March 27, 2017 and January 31, 2018, for each CDN \$1,000 debenture unit the Company issued 100 warrants to purchase one common share of the Company's common stock per warrant at a price of \$0.50 per share up to two years from the closing date. (See Note 12) The issuance dates for these warrants with corresponding number of warrants are as follows:

Issuance Date	Number of Warrants
March 27, 2017	15,000
June 5, 2017	15,000
June 9, 2017	7,500
November 6, 2017	9,000
November 14, 2017	5,000
November 15, 2017	2,000
November 22, 2017	3,000
December 5, 2017	4,000
December 11, 2017	2,500
January 16, 2018	20,500
January 19, 2018	13,000
January 31, 2018	21,000

The fair value of the above warrants was calculated using the Black-Scholes model on the date of issuance and was recorded as debt discount, which has been amortized as interest expense over the life of the debt. The fair value of the warrants on the date of issuance as calculated using the Black-Scholes model was:

Warrant	Fair Value at issuance
February 29, 2016	\$ 106,583
April 4, 2016	\$ 53,236
April 4, 2016	\$ 27,901
January 24, 2017	\$ 13,973
March 27, 2017	\$ 11,923
June 5, 2017	\$ 14,826
June 9, 2017	\$ 7,489
November 6, 2017	\$ 3,131
November 14, 2017	\$ 1,640
November 15, 2017	\$ 676
November 22, 2017	\$ 948
December 5, 2017	\$ 994
December 11, 2017	\$ 747
January 16, 2018	\$ 8,853
January 19, 2018	\$ 4,327
January 31, 2018	\$ 12,187
February 26, 2018	\$ 76,671

The following assumptions were used to calculate the fair value at issuance:

Warrant Date	Exercise Price/sh	Common Stock Price/sh	Volatility	Term	Dividend Yield	Interest Rate	Forfeiture Risk
February 29, 2016	\$ 0.575	\$ 0.45	200%	3 yrs	0%	0.91%	0%
April 4, 2016	\$ 0.575	\$ 0.475	195%	3 yrs	0%	0.91%	0%
April 4, 2016	\$ 0.575	\$ 0.475	195%	3 yrs	0%	0.91%	0%
January 24, 2017	\$ 0.50	\$ 0.39	404%	2 yrs	0%	0.91%	0%
March 27, 2017	\$ 0.50	\$ 0.40	390%	2 yrs	0%	0.91%	0%
June 5, 2017	\$ 0.50	\$ 0.495	445%	2 yrs	0%	0.91%	0%
June 9, 2017	\$ 0.50	\$ 0.495	445%	2 yrs	0%	0.91%	0%
November 6, 2017	\$ 0.50	\$ 0.35	410%	2 yrs	0%	0.91%	0%
November 14, 2017	\$ 0.50	\$ 0.33	413%	2 yrs	0%	0.91%	0%
November 15, 2017	\$ 0.50	\$ 0.34	409%	2 yrs	0%	0.91%	0%
November 22, 2017	\$ 0.50	\$ 0.318	414%	2 yrs	0%	0.91%	0%
December 5, 2017	\$ 0.50	\$ 0.25	422%	2 yrs	0%	0.91%	0%
December 11, 2017	\$ 0.50	\$ 0.30	433%	2 yrs	0%	0.91%	0%
January 16, 2018	\$ 0.50	\$ 0.51	201%	2 yrs	0%	0.91%	0%
January 19, 2018	\$ 0.50	\$ 0.40	203%	2 yrs	0%	0.91%	0%
January 31, 2018	\$ 0.50	\$ 0.65	218%	2 yrs	0%	0.91%	0%
February 26, 2018	\$ 0.625	\$ 0.50	222%	2 yrs	0%	0.91%	0%

A summary of warrant transactions during the three months ended March 31, 2018 is as follows:

	Warrant Shares	Weighted Average Exercise Price Per Common Share	Weighted Average Life
Outstanding at December 31, 2016	467,928	\$ 0.58	2.13
Issued	162,000	\$ 0.50	2.00
Exercised	—	—	—
Expired	(17,400)	—	—
Outstanding at December 31, 2017	612,528	\$ 0.54	1.37
Exercisable at December 31, 2017	561,528	\$ 0.56	1.21
Issued	230,375	\$ 0.60	2.00
Exercised	—	—	—
Expired	—	—	—
Outstanding at March 31, 2018	842,903	\$ 0.57	1.25
Exercisable at March 31, 2018	561,528	\$ 0.56	0.97

The following assumptions were used to calculate the fair value of warrants at March 31, 2018:

Exercises price	\$0.50 - \$0.625
Common stock price per share	\$ 0.40
Volatility	216%
Weighted average life	1.25 years
Dividend yield	0%
Interest rate	0.91%
Forfeiture risk	0%

## 16. Derivative Liability and Fair Value

The Company has evaluated the application of ASC 815 Derivatives and Hedging and ASC 815-40-25 to the warrants to purchase common stock issued with the convertible notes and debentures. Based on the guidance in ASC 815 and ASC 815-40-25, the Company concluded these instruments were required to be accounted for as derivatives due to the down round protection feature on the conversion price and the exercise price. The Company records the fair value of these derivatives on its balance sheet at fair value with changes in the values of these derivatives reflected in the statements of operations as "Gain (loss) on derivative liabilities." These derivative instruments are not designated as hedging instruments under ASC 815 and are disclosed on the balance sheet under Derivative Liabilities.

The Convertible Debenture issued March 27, 2017 and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to March 27, 2019. The gross proceeds from the sale of the debenture were recorded net of \$70,617 related to the conversion feature and \$11,923 was allocated to the warrants issued.

The Convertible Debenture issued June 5, 2017, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to June 5, 2019. The gross proceeds from the sale of the debenture were recorded net of \$86,815 related to the conversion feature and \$14,826 was allocated to the warrants issued.

The Convertible Debenture issued June 9, 2017, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to June 9, 2019. The gross proceeds from the sale of the debenture were recorded net of \$43,874 related to the conversion feature and \$7,489 was allocated to the warrants issued.

The Convertible Debentures issued in November and December 2017, and accrued interest are convertible into common shares at a fixed price of \$0.75 for a period of two years from the issue date. The gross proceeds from the sale of the debentures were recorded net of \$50,461 related to the conversion feature and \$8,136 was allocated to the warrants issued.

The Convertible Debenture issued January 16, 2018, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to January 16, 2020. The gross proceeds from the sale of the debenture were recorded net of \$105,948 related to the conversion feature and \$8,853 was allocated to the warrants issued.

The Convertible Debenture issued January 19, 2018, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to January 19, 2020. The gross proceeds from the sale of the debenture were recorded net of \$51,480 related to the conversion feature and \$4,327 was allocated to the warrants issued.

The Convertible Debenture issued January 31, 2018, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to January 31, 2020. The gross proceeds from the sale of the debenture were recorded net of \$302,956 related to the conversion feature and \$12,187 was allocated to the warrants issued.

The Convertible Debenture issued February 26, 2018, and accrued interest are convertible into common shares at a fixed price of \$0.75 prior to February 26, 2020. The gross proceeds from the sale of the debenture were recorded net of \$351,450 related to the conversion feature and \$73,020 was allocated to the warrants issued.

The Company accounted for the convertible debentures in accordance with ASC 815 "Derivatives and Hedging." Accordingly, the embedded conversion option is a derivative liability and is marked to market through earnings at the end of each reporting period.

## 17. Revenues

The following table represents disaggregated revenues from our gaming operations for the three months ended March 31, 2018 and March 31, 2017:

	Three Months Ended	
	March 31, 2018	March 31, 2017
<b>Turnover</b>		
Turnover web-based	\$ 46,065,899	\$ 28,749,836
Turnover land-based	44,493,960	23,969,666
<b>Total Turnover</b>	<u>90,559,859</u>	<u>52,719,502</u>
<b>Winnings/Payouts</b>		
Winnings web-based	42,617,996	27,222,482
Winnings land-based	38,746,243	21,704,642
<b>Total Winnings/payouts</b>	<u>81,364,239</u>	<u>48,927,124</u>
<b>Gross Gaming Revenues</b>	\$ 9,195,620	\$ 3,792,378
Less: ADM Gaming Taxes	766,833	364,451
<b>Net Gaming Revenues</b>	\$ 8,428,787	\$ 3,427,927
Add: Commission Revenues	99,001	81,845
Add: Service Revenues	66,079	365,429
<b>Total Revenues</b>	<u>\$ 8,593,867</u>	<u>\$ 3,875,201</u>

Turnover represents the total bets processed for the period.

## 18. Income Taxes

The Company is incorporated in the United States of America and is subject to United States federal taxation. No provisions for income taxes have been made as the Company had no U.S. taxable income for the three months ended March 31, 2018 and March 31, 2017.

The Company's Italian subsidiaries are governed by the income tax laws of Italy. The corporate tax rate in Italy is 28.82% (IRES at 24% plus IRAP ordinary at 4.82%) on income reported in the statutory financial statements after appropriate tax adjustments.

The Company's Austrian subsidiaries are governed by the income tax laws of Austria. The corporate tax rate in Austria is 25% on income reported in the statutory financial statements after appropriate tax adjustments.

The Company's Canadian subsidiary is governed by the income tax laws of Canada and the Province of Ontario. The combined Federal and Provincial corporate tax rate in Canada is 26.5% on income reported in the statutory financial statements after appropriate tax adjustments.

The reconciliation of income tax expense at the U.S. statutory rate of 35% to the Company's effective tax rate is as follows:



	March 31, 2018	March 31, 2017
U.S. Statutory rate	\$ 354,801	\$ (278,252)
Tax rate difference between Italy, Austria, Canada and U.S.	(227,467)	181,452
Change in Valuation Allowance	(63,671)	145,803
Permanent difference	181,373	(1,894)
Effective tax rate	<u>\$ 245,036</u>	<u>\$ 47,109</u>

The Company has accumulated a net operating loss carry forward ("NOL") of approximately \$11.9 million as of March 31, 2018 in the U.S. This NOL may be offset against future taxable income through the year 2037. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the NOL. The Company periodically evaluates whether it is more likely than not that it will generate sufficient taxable income to realize the deferred income tax asset. At the present time, management cannot presently determine when the Company will be able to generate sufficient taxable income to realize the deferred tax asset; accordingly, a 100% valuation allowance has been established to offset the asset.

Utilization of NOLs are subject to limitation due to any ownership change (as defined under Section 382 of the Internal Revenue Code of 1986) which resulted in a change in business direction. Unused limitations may be carried over to future years until the NOLs expire. Utilization of NOLs may also be limited in any one year by alternative minimum tax rules.

Under Italian tax law, the operating loss carryforwards available for offset against future profits can be used indefinitely. Operating loss carryforwards are only available for offset against national income tax, up to the limit of 80% of taxable annual income. This restriction does not apply to the operating loss incurred in the first three years of the Company's activity, which are therefore available for 100% offsetting.

Under Austrian tax law, the operating loss carryforwards available for offset against future profits can be used indefinitely. Operating loss carryforwards are only available for offset against national income tax, up to the limit of 75% of taxable annual income.

Under Canadian tax law, the operating loss carryforwards available for offset against future profits can be used indefinitely.

The provisions for income taxes consist of currently payable income tax in Italy and Austria. The provisions for income taxes are summarized as follows:

	March 31, 2018	March 31, 2017
Current	\$ 245,036	\$ 47,109
Deferred	—	—
<u>Total</u>	<u>\$ 245,036</u>	<u>\$ 47,109</u>

The tax effects of temporary differences that give rise to the Company's net deferred tax asset are as follows:

	March 31, 2018	March 31, 2017
Net loss carryforward - Foreign	\$ 21,272	\$ 145,497
Net loss carryforward - US	4,476,794	4,106,025
	4,498,066	4,251,522
Less valuation allowance	(4,498,066)	(4,251,522)
Deferred tax assets	\$ —	\$ —

#### 19. Subsequent Events

- (1) On April 19, 2018, the Company paid \$8,425 including \$20 in bank fees, to pay the balance of the amount due under the consent judgement in full and on May 9, 2018 an order of Satisfaction of Judgement was entered to conclude the legal proceedings.
- (2) On April 23, 2018, the Company re-issued debenture units first issued between January 24, 2017 and January 31, 2018 in order to simplify the various debentures into a single series with the same terms as new convertible debenture units issued on February 26, 2018. The carrying value of the re-issued debentures is \$1,435,809 due to an interest bonus of \$80,809.

Each re-issued debenture unit is comprised of (i) the issuance of CDN \$1,000 of debentures bearing interest at a rate of 10% per annum, with a maturity date of two (2) years from the date of issuance which may be converted in whole or in part at a price of \$0.40 per share, (ii) 250 warrants which may be exercised at a price equal to \$0.50 per share price per warrant to receive one common share prior to February 15, 2020, and (iii) 160 shares of restricted common stock issued pursuant to an exemption under Rule 144 of the US Securities and Exchange Act.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

Except as expressly stated, the financial condition and results of operations discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") are those of Newgioco Group, Inc. and its consolidated subsidiaries.

The MD&A is intended to provide the reader of our consolidated financial statements with a narrative explanation from the perspective of management of our financial condition, results of operations, liquidity and certain other factors that may affect future results. The MD&A is provided as a supplement to, and should be read in conjunction with, our interim unaudited consolidated financial statements and related notes on this Form 10-Q and the audited consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The inclusion of supplementary analytical and related information herein may require us to make appropriate estimates and assumptions to enable us to fairly present, in all material respects, our analysis of trends and expectations with respect to our results of operations and financial position taken as a whole.

### General Plan of Operation

Newgioco Group, Inc. ("Newgioco Group" or "the Company") was incorporated in the state of Delaware on August 26, 1998 as Pender International Inc. On September 30, 2005, the Company changed its name to Empire Global Corp., and on July 20, 2016 changed its name to Newgioco Group, Inc. The Company maintains its principal executive offices headquartered in Toronto, Canada with wholly owned subsidiaries in Italy and Austria.

Our subsidiaries include: Multigioco Srl ("Multigioco") which was acquired on August 15, 2014, Rifa Srl ("Rifa") which was acquired on January 1, 2015, as well as Ulisse GmbH ("Ulisse") and Odissea Betriebsinformatik Beratung GmbH ("Odissea") which were both acquired on July 1, 2016.

Newgioco Group is now a vertically integrated company which owns and operates an innovative Betting Platform Software ("BPS") and offering a complete suite of online and offline leisure gaming services including a variety of lottery and casino gaming, as well as sports betting products through a distribution network of retail betting locations situated throughout Italy. The Company intends to grow through acquisitions and organic development of its distribution network in Italy in addition to exploring new opportunities in regulated gaming markets internationally.

Our revenues are derived from gaming products distributed by our subsidiaries in addition to business-to-business BPS services to third party operators provided by our subsidiary Odissea.

Our subsidiaries now own a betting platform software technology and operate approximately 800 web-based shops (Punti Virtuali di Ricarica), a Bersani license #4070 with 7 corner (Punto Sportivo) rights, as well as a Monti license #4583 with 2 agency (Negozio Sportivo) rights and 165 CED agency locations.

### Results of Operations

Comparison of the three months ended March 31, 2018 and 2017.

#### Overall

The Company is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in the decision and implementation of a new business plan. We generate revenues by providing online and offline gaming products and services in regulated countries.

We anticipate continuing to rely on equity sales of common stock to fund our additional acquisitions or into new business opportunities. The issuance of any additional shares will result in dilution to our existing shareholders.

#### Revenues

The Company generated revenues of \$8,593,867 for the three months ended March 31, 2017, compared to revenues of \$3,875,201 for the three months ended March 31, 2017, respectively. The revenues are comprised of Net Gaming Revenues derived from providing online and offline gaming products, services, and BPS services in Italy.

The increase in revenues for the three months ended March 31, 2018 over the same period ended March 31, 2017 is attributed to the growth in our offline and web-based gaming operations as well as revenues derived from BPS services that were a result of the July 1, 2016 acquisition of Ulisse and Odissea.

The Company had approximately 800 web-based shops, 7 corners and 165 agencies as of March 31, 2018, compared to approximately 900 web-based shops, 7 corners and 140 agencies as of March 31, 2017.

The following table represents disaggregated revenues from our gaming operations for the three months ended March 31, 2018 and March 31, 2017:

	Three Months Ended	
	March 31, 2018	March 31, 2017
<b>Turnover</b>		
Turnover web-based	\$ 46,065,899	\$ 28,749,836
Turnover land-based	44,493,960	23,969,666
<b>Total Turnover</b>	<b>90,559,859</b>	<b>52,719,502</b>
<b>Winnings/Payouts</b>		
Winnings web-based	42,617,996	27,222,482
Winnings land-based	38,746,243	21,704,642
<b>Total Winnings/payouts</b>	<b>81,364,239</b>	<b>48,927,124</b>
<b>Gross Gaming Revenues</b>	<b>\$ 9,195,620</b>	<b>\$ 3,792,378</b>
Less: ADM Gaming Taxes	766,833	364,451
<b>Net Gaming Revenues</b>	<b>\$ 8,428,787</b>	<b>\$ 3,427,927</b>
Add: Commission Revenues	99,001	81,845
Add: Service Revenues	66,079	365,429
<b>Total Revenues</b>	<b>\$ 8,593,867</b>	<b>\$ 3,875,201</b>

Turnover represents the total bets processed for the period.

#### General and Administrative Expenses

The Company incurred \$2,059,453 in general and administrative expenses during the three months ended March 31, 2018, compared to \$1,197,571 in the three months ended March 31, 2017. The increase in general and administrative expenses was mostly a result of increase in selling expenses, salaries, wages and professional fees related to the growth in our retail gaming operations.

The Company's major general and administrative expenses for the three months ended March 31, 2018 compared to 2017 were as follows:

	March 31, 2018	March 31, 2017
Salaries	\$ 984,897	\$ 495,929
Cash and non-cash professional fees including legal, consulting and audit fees	\$ 489,943	\$ 123,979
Depreciation and amortization expenses	\$ 171,913	\$ 184,889
Advertising and promotion	\$ 137,310	\$ 78,729
Management fees	\$ 41,532	\$ 40,796
Bank interest and charges	\$ 51,218	\$ 29,113

Amortization expense includes the amortization of deferred loan costs of \$13,558 and \$48,389 for the three months ended March 31, 2018 and March 31, 2017, respectively.

#### Direct Selling Costs

Direct selling costs represent the fees we pay to our network service provider, ADM license fees, and commissions for field agents and promoters which is essentially considered an ongoing marketing cost.

During the three months ended March 31, 2018 our selling expenses were \$6,077,357, compared to selling expenses of \$3,436,951 for the three months ended March 31, 2017. The increase was due to the commissions paid related to the increase in betting turnover.

#### Interest Expenses

The Company had incurred interest expenses, net of interest income, of \$212,239 for the three months ended March 31, 2018, compared to \$166,847 in interest expense, net of interest income, for the three months ended March 31, 2017.

Interest expense includes non-cash interest costs of \$87,150 for the three months ended March 31, 2018, compared to \$121,801 in non-cash interest costs for the three months ended March 31, 2017.

#### Change in Fair Value of Derivative Liability

Changes in fair value of derivative liability generated an income of \$254,289 compared to an income of \$144,626 for the for the three months ended March 31, 2018 and March 31, 2017, respectively. The increase in the fair value of derivative liability is due to a decrease in the price of the Company's common stock and the increase in additional derivative liabilities.

#### Net Income (Loss)

For the three months ended March 31, 2018, the Company had a net income of \$768,677, or \$0.01 per share, both (basic and diluted, as compared to a net loss of \$842,116, or \$0.01 per share (basic and diluted), for the three months ended March 31, 2017.

The increase in net income during 2018 is primarily due to the increase in revenues generated from the large increase in betting turnover, relative decrease in selling expenses, general and administrative expenses, positive effect of changes in fair market value of derivative liabilities, and gain on litigation in connection with settlement as described in Note 12.

#### Other Comprehensive Income

Our other comprehensive income consists of foreign currency translation adjustments related to the effect of foreign exchange on the value of our assets denominated in Euro.

The Company's reporting currency is the U.S. dollar while the functional currency of our subsidiaries is the Euro, the local currency in Italy and Austria. The financial statements of our subsidiaries are translated into United States dollars in accordance with ASC 830, using year-end rates of exchange for assets and liabilities, and average rates of exchange for the period for revenues, costs, and expenses and historical rates for equity. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining other comprehensive income.

The Company recorded a foreign currency translation adjustment loss of \$64,518 and \$70,203 for the three months ended March 31, 2018 and March 31, 2017, respectively.

#### Liquidity and Capital Resources

##### Assets

At March 31, 2018, we had a total of \$13,120,439 in assets compared to \$12,224,496 in assets at December 31, 2017. The increase is primarily related to the increase in cash and cash equivalents and investment in non-consolidated entities.

##### Liabilities

At March 31, 2018, we had \$7,200,864 in current liabilities and \$953,598 in long term liabilities, compared to current liabilities of \$7,214,958 and long-term liabilities of \$895,488 at December 31, 2017.

## Working Capital

The Company had \$7,190,209 in cash and cash equivalents at March 31, 2018 compared to \$6,469,858 cash and cash equivalents on December 31, 2017.

We had \$8,342,097 in current assets and \$7,200,864 in current liabilities, resulting in working capital surplus of \$1,141,233 at March 31, 2018, compared to working capital surplus of \$635,455 at December 31, 2017.

## Accumulated Deficit

As of March 31, 2018, we had a total accumulated deficit of \$9,128,943, compared to a total accumulated deficit of \$9,897,620 at December 31, 2017.

The Company cannot assure that we will be able to maintain a profitable level of operations sufficient to meet our ongoing cash needs. During the past several years, we generally sustained recurring losses and negative cash flows from operations. We currently do not generate sufficient revenue from operations to sustain our growth plans. Our operations most recently have been funded through a combination of the sale of debentures, convertible and promissory notes as well as through the issuance of our common stock. We are pursuing potential equity and/or debt investors and have engaged placement agents to assist us in this initiative. While we are pursuing the opportunities and actions described above, there can be no assurance that we will be successful in our efforts.

The Company currently maintains an operating line of credit for a maximum amount of EUR 300,000 (approximately U.S. \$370,860) for Multigioco and EUR 50,000 (approximately U.S. \$61,810) for Rifa from Intesa Sanpaolo Bank in Italy. The line of credit is secured by restricted cash on deposit at Intesa Sanpaolo Bank and guaranteed by certain shareholders of the Company and bears a fixed rate of interest at 5% per annum on the outstanding balance with no minimum payment, maturity or due date.

Although we intend to maintain our lending relationships with Intesa Sanpaolo Bank, we believe that our focus should be on obtaining additional capital through the private placement and/or the sale of our registered securities. Any additional equity financing may result in substantial dilution to our stockholders.

## Cash Flows from Operating Activities

Cash flows from operating activities resulted in net cash provided by operating activities of \$1,444,031 for three months ended March 31, 2018, compared to \$590,658 of net cash used in operating activities for the three months ended March 31, 2017.

## Cash Flows from Investing Activities

The net cash used in investing activities for the three months ended March 31, 2018 was \$182,798 compared to \$55,286 of net cash used in investing activities for the three months ended March 31, 2017.

## Cash Flows from Financing Activities

Net cash used in financing activities for the three months ended March 31, 2018 was \$692,260 compared to \$257,766 of net cash provided by financing activities for the three months ended March 31, 2017.

## Contractual Obligations

Current accounting standards require disclosure of material obligations and commitments to make future payments under contracts, such as debt, lease agreements, and purchase obligations. Please refer to Notes 6 to 9 and 12 - 14 of the Notes to the Consolidated Financial Statements for information related to debt obligations.

## Off-Balance-Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that we expect to be material to investors. We do not have any non-consolidated, special-purpose entities.

## Related Party Transactions

### Loan Receivable - related party

On February 28, 2018, the Company provided a loan of EUR 39,048 (approximately U.S. \$48,090) to Engage IT Services Srl, a company in which Luca Pasquini holds a 34% stake. This loan was advanced for the purpose of financing third-party betting agencies. It bears interest at 4.47% and is due on October 31, 2018.

Advances from stockholders represent non-interest-bearing loans that are due on demand. Interest was imputed at 5% per annum. Balances of Advances from stockholders are as follows:

	March 31, 2018	December 31, 2017
Gold Street Capital Corp.	\$ 58,384	\$ 41,143
Doriana Gianfelici	60,302	58,792
Luca Pasquini	(117,610)	(119,939)
Other stockholders	—	567,813
Total advances from stockholders	<u>\$ 1,076</u>	<u>\$ 547,809</u>

During the three months ended March 31, 2018, Gold Street, the major stockholder of Newgioco Group, advanced \$17,241 to the Company, net of repayment of \$43,460. Also, the Company paid management fees to Gold Street Capital Corp. of \$36,000 for the three months ended March 31, 2018.

Changes in advances from Doriana Gianfelici were due to the fluctuations in foreign exchange rates.

The Company advanced a short-term loan of EUR 100,000 (approximately U.S. \$123,060) to Luca Pasquini to cover fees related to an application for a gaming license in Malta. As of the date of this report the application is pending, there is no assurance that the gaming license in Malta would be obtained. This loan is non interest-bearing and is due on June 30, 2018. Changes in the balance of the loan were due to the fluctuations in foreign exchange rates. During the three months ended March 31, 2018, Luca Pasquini advanced \$5,408 to the Company.

During the three months ended March 31, 2018, the Company paid management fees of \$5,532 to Luca Pasquini. Also, the Company paid service fees of EUR 120,000 (approximately U.S. \$147,516) to Ulisse Services Ltd., a company owned by Luca Pasquini. Accounts payable and accrued liabilities include EUR 40,000 (approximately U.S. \$49,172) payable to Ulisse Services Ltd.

Advances from other stockholders comprised of the dividend accrued to former stockholders of Ulisse for the six-month period prior to the acquisition of Ulisse on July 1, 2016.

The amounts due to the stockholders at March 31, 2018 are non-interest bearing and due on demand.

### Related-Party Debt

Promissory notes payable to related parties of \$318,078 represents amounts due to Braydon Capital Corp., a company owned by Claudio Ciavarella, the brother of our CEO. These notes bear interest at a rate of 1% per month and have no fixed maturity date. Accounts payable and accrued liabilities include \$78,628 in accrued interest on these notes.

### Inflation

We do not believe that general price inflation will have a material effect on the Company's business in the near future.

### Foreign Exchange

Transactions involving the Company are generally denominated in U.S. dollars while the functional currency of our subsidiaries is the Euro. Changes and fluctuations in the foreign exchange rate between the Euro and the U.S. dollar will have an effect on our results of operations.

## Critical Accounting Policies and Estimates

Preparation of our consolidated financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires us to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, as well as related disclosure of contingent assets and liabilities. Significant accounting policies are fundamental to understanding our financial condition and results as they require the use of estimates and assumptions which affect the financial statements and accompanying notes.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Newgioco Group is a smaller reporting company (as defined by Rule 12b-2 of the Exchange Act) and is not required to provide the information required under this item.

### Item 4. Controls and Procedures.

We have adopted and maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods required under the SEC's rules and forms and that the information is gathered and communicated to our management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Financial Officer), to allow for timely decisions regarding required disclosure.

As required by SEC Rule 15d-15(b), our Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 15d-14 as of the end of the period covered by this report. Based on the foregoing evaluation, our CEO and CFO concluded that due to our limited resources our disclosure controls and procedures are not effective in providing material information required to be included in our periodic SEC filings on a timely basis and to ensure that information required to be disclosed in our periodic SEC filings is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure about our internal control over financial reporting discussed below.

#### Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for our company. Our internal control system was designed to, in general, provide reasonable assurance to our management and board regarding the preparation and fair presentation of published financial statements, but because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2018. The framework used by management in making that assessment was the criteria set forth in the document entitled "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on that assessment, our management has determined that as of March 31, 2018, our internal control over financial reporting was not effective due to material weaknesses resulting from our limited resources.

Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission. This quarterly report does not include an attestation report of the Company's registered accounting firm regarding internal control over financial reporting.

#### Changes in Internal Control Over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Newgioco Group is a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and is not required to provide the information required under this item.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

During the quarter of the fiscal year covered by this report, Newgioco Group reported all information that was required to be disclosed in a report on form 8-K.

Item 6. Exhibits

(a) Index to and Description of Exhibits

All Exhibits required to be filed with the Form 10-Q are included in this quarterly report or incorporated by reference to Newgioco Group's previous filings with the SEC, which can be found in their entirety at the SEC website at [www.sec.gov](http://www.sec.gov) under SEC File Number 000-50045.

<b>Exhibit Number</b>	<b>Description</b>
31	Rule 13a-14(a) Certification of Chief Executive Officer and Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 14, 2018

**Newgioco Group, Inc**

By: /s/ Michele Ciavarella

Michele Ciavarella

Chairman of the Board, Chief Executive Officer, and Principal Financial Officer

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michele Ciavarella, certify that:

1. I have reviewed this Form 10-Q of Newgioco Group, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the periodic reports are being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financing reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 14, 2018

/s/ Michele Ciavarella  
Michele Ciavarella  
Principal Executive Officer  
Principal Financial Officer

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This certification accompanies each Report pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of ss.18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF  
CHIEF EXECUTIVE OFFICER AND  
CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350  
(Section 906 of the Sarbanes-Oxley Act of 2002)

In connection with the Quarterly Report on Form 10-Q of Newgioco Group, Inc. (the "Company") for the period ended March 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michele Ciavarella, as Principal Executive Officer and Principal Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to ss.906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2018

/s/ Michele Ciavarella  
Michele Ciavarella  
Principal Executive Officer  
Principal Financial Officer