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 June 30, 2021

☐ **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: **000-52898**

urban-gro, Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**46-5158469** (I.R.S. Employer Identification No.)
1751 Panorama Point, Unit G **Lafayette, CO** (Address of principal executive offices)	**80026** (Zip Code)

(720) 390-3880
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	UGRO	NASDAQ

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of the registrant's only class of common stock outstanding as of August 6, 2021 was10,512,515 shares.

urban gro, Inc.
FORM 10-Q
For the Quarterly Period Ended June 30, 2021

INDEX

FORWARD LOOKING STATEMENTS

This Report on Form 10-Q (the "Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. The statements regarding urban-gro, Inc. contained in this Report that are not historical in nature, particularly those that utilize terminology such as "may," "will," "should," "likely," "expects," "anticipates," "estimates," "believes" or "plans," or comparable terminology, are forward-looking statements based on current expectations and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on our behalf. We caution readers regarding certain forward-looking statements in this Report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission (the "SEC").

Important factors known to us that could cause such material differences are identified in this Report, including the factors described in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2020. Except as required by applicable law, we undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

urban-gro, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 50,444,738	$ 184,469
Accounts receivable, net	2,977,167	915,052
Inventories	627,276	537,104
Related party receivable	5,626	61,678
Prepayments and other assets	6,212,891	3,547,068
Total current assets	60,267,698	5,245,371
Non-current assets:		
Property and equipment, net	96,734	129,444
Operating lease right of use assets, net	22,222	88,889
Investments	1,710,358	1,710,358
Goodwill	902,067	902,067
Other assets	83,936	84,514
Total non-current assets	2,815,317	2,915,272
Total assets	$ 63,083,015	$ 8,160,643
Liabilities		
Current liabilities:		
Accounts payable	$ 2,265,840	$ 653,998
Accrued expenses	1,971,405	1,798,494
Deposits	9,354,279	4,878,863
Notes payable	-	1,854,500
Revolving Facility	-	3,403,143
Term Loan, net	-	1,868,320
Operating lease liabilities	22,222	88,889
Total current liabilities	13,613,746	14,546,207
Non-current liabilities:		
Notes payable	-	1,020,600
Total non-current liabilities	-	1,020,600
Total liabilities	13,613,746	15,566,807

Shareholders' equity (deficit):		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; 0 shares issued and outstanding	-	–
Common stock, $0.001 par value; 100,000,000 shares authorized; 11,222,914 issued and 10,820,019 outstanding as of June 30, 2021, and 4,718,714 shares issued and outstanding as of December 31, 2020	11,223	4,719
Additional paid in capital	75,227,775	14,553,438
Treasury shares, cost basis: 402,895 shares as of June 30, 2021	(3,474,270)	-
Accumulated deficit	(22,295,459)	(21,964,321)
Total shareholders' equity (deficit)	49,469,269	(7,406,164)
Total liabilities and shareholders' equity (deficit)	$ 63,083,015	$ 8,160,643

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue				
Equipment systems	$ 12,179,316	$ 3,108,162	$ 23,524,066	$ 6,589,747
Consumable products	363,574	270,434	792,667	635,186
Services	288,407	626,668	548,920	1,041,334
Total Revenue	12,831,297	4,005,264	24,865,653	8,266,267
Cost of Revenue	9,908,913	2,811,812	19,302,626	5,959,327
Gross profit	2,922,384	1,193,452	5,563,027	2,306,940
Operating expenses:				
General and administrative	2,400,828	1,560,499	4,597,835	3,655,907
Stock-based compensation	299,602	559,904	590,407	992,549
Total operating expenses	2,700,430	2,120,403	5,188,242	4,648,456
Income (loss) from operations	221,954	(926,951)	374,784	(2,341,516)
Non-operating income (expenses):				
Interest expense	(4,624)	(365,709)	(322,067)	(664,343)
Interest expense – beneficial conversion of notes payable	-	-	(636,075)	-
Loss on extinguishment of debt	-	-	(790,723)	-
Impairment of investment	-	(310,000)	-	(310,000)
PPP Loan Forgiveness	1,032,316		1,032,316	
Other income	7,798	32,690	10,626	50,258
Total non-operating income (expenses)	1,035,490	(643,019)	(705,923)	(924,085)
Income (loss) before income taxes	1,257,444	(1,569,970)	(331,138)	(3,265,601)
Income tax expense (benefit)	-	–	-	–
Net income (loss)	$ 1,257,444	$ (1,569,970)	$ (331,138)	$ (3,265,601)
Comprehensive income (loss)	$ 1,257,444	$ (1,569,970)	$ (331,138)	$ (3,265,601)
Earnings (loss) per share:				
Earnings (loss) per share - basic	$ 0.11	$ (0.33)	$ (0.03)	$ (0.69)
Earnings (loss) per share - dilutive	$ 0.11	$ (0.33)	$ (0.03)	$ (0.69)
Weighted average share - basic	11,220,580	4,792,462	9,535,630	4,765,047
Weighted average shares - dilutive	11,725,282	4,792,462	9,535,630	4,765,047

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)
	Shares	Amount				
Balance, March 31, 2021	**11,218,137**	**$ 11,218**	**$ 75,091,357**	**$ (23,552,903)**	**$ (2,975,000)**	**$ 48,574,672**
Stock-based compensation	-	-	299,602	-	-	299,602

	Shares	Amount	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)
Stock issuance related to offering, net of offering costs of $195,574	-	-	(195,574)	-	-	(195,574)
Common stock repurchased	-	-	-	-	(499,270)	(499,270)
Stock Options Exercised	4,777	5	32,390	-	-	32,395
Net income (loss) for period ended June 30, 2021	-	-	-	1,257,444	-	1,257,444
Balance, June 30, 2021	**11,222,914**	**$ 11,223**	**$ 75,227,775**	**$ (22,295,459)**	**$ (3,474,270)**	**$ 49,469,269**

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Balance, March 31, 2020	**4,784,885**	**$ 4,785**	**$ 12,986,974**	**$ (18,586,257)**	**$ (5,594,498)**
Stock-based compensation	–	–	559,904	–	559,904
Stock grant program vesting	20,278	20	(20)	–	–
Net income (loss) for period ended June 30, 2020	–	–	–	(1,569,970)	(1,569,970)
Balance, June 30, 2020	**4,805,163**	**$ 4,805**	**$ 13,546,858**	**$ (20,156,227)**	**$ (6,604,564)**

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) (Continued)
(unaudited)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Total Shareholders' Equity (Deficit)
	Shares	Amount				
Balance, December 31, 2020	**4,718,714**	**$ 4,719**	**$ 14,553,438**	**$ (21,964,321)**	$ –	**$ (7,406,164)**
Stock-based compensation	-	-	590,407	-	-	590,407
Beneficial conversion feature	-	-	636,075	-	-	636,075
Conversion of Bridge Financing	254,425	254	1,907,971	-	-	1,908,225
Stock grant program vesting	16,586	17	(17)	-	-	-
Stock issuance related to offering, net of offering costs of $4,596,257	6,210,000	6,210	57,497,533	-	-	57,503,743
Common stock repurchased	-	-	-	-	(3,474,270)	(3,474,270)
Stock issued with exercise of warrants	18,412	18	9,978	-	-	9,996
Stock Options Exercised	4,777	5	32,390	-	-	32,395
Net income (loss) for period ended June 30, 2021	-	-	-	(331,138)	-	(331,138)
Balance, June 30, 2021	**11,222,914**	**$ 11,223**	**$ 75,227,775**	**$ (22,295,459)**	**$ (3,474,270)**	**$ 49,469,269**

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount			
Balance, December 31, 2019	**4,701,552**	**$ 4,702**	**$ 11,877,590**	**$ (16,890,626)**	**$ (5,008,334)**
Stock-based compensation	–	–	992,549	–	992,549
Clawback of stock granted	(16,667)	(17)	17	–	–
Stock grant program vesting	20,278	20	(20)	–	–
Stock issued loan revisions	16,667	16	99,984	–	100,000
Stock issuance related to debt	83,333	83	499,917	–	500,000
Warrant issuance related to debt	–	–	76,822	–	76,822
Net income (loss) for period ended June 30, 2020	–	–	–	(3,265,601)	(3,265,601)
Balance, June 30, 2020	**4,805,163**	**$ 4,805**	**$ 13,546,858**	**$ (20,156,227)**	**$ (6,604,564)**

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Cash Flows from Operating Activities		
Net loss	$ (331,138)	$ (3,265,601)
Adjustments to reconcile net loss from operations:		
Depreciation and amortization	109,625	120,410
Amortization of deferred financing costs	103,632	203,721
Loss on extinguishment of debt	790,723	–
Interest on convertible notes	53,725	–
Stock-based compensation expense	590,407	992,549
Beneficial conversion of Bridge notes	636,075	-
Impairment of investment	-	310,000
Gain on disposal of assets	-	3,468

Inventory write-offs	26,792	25,528
Bad debt expense	28,248	25,239
PPP loan forgiveness	(1,032,316)	–
Changes in operating assets and liabilities:		
Accounts receivable	(2,034,311)	613,723
Inventories	(116,964)	(324,981)
Prepayments and other assets	(3,732,753)	(158,687)
Accounts payable and accrued expenses	1,729,802	(2,149,312)
Deposits	4,475,416	441,518
Net Cash Provided By (Used In) Operating Activities	**1,296,963**	**(3,162,425)**
Cash Flows from Investing Activities		
Purchases of property and equipment	(9,670)	(85,331)
Net Cash Used In Investing Activities	**(9,670)**	**(85,331)**
Cash Flows from Financing Activities		
Proceeds from issuance of Revolving Facility	-	2,207,432
Proceeds from issuance of Term Loan	-	2,000,000
Proceeds from Revolving Facility advances	-	1,205,525
Repurchase of Common Stock	(3,474,270)	–
Proceeds from issuance of Common Stock, net of offering costs	58,203,091	–
Long-term note payable	-	1,020,600
Debt financing costs	-	(545,501)
Repayment of debt	(5,755,845)	(2,686,522)
Net Cash Provided by Financing Activities	48,972,976	**3,201,534**
Net Increase in Cash	**50,260,269**	**(46,222)**
Cash at Beginning of Period	**184,469**	**448,703**
Cash at End of Period	$ 50,444,738	**$ 402,481**
Supplemental Cash Flow Information:		
Interest Paid	$ 218,435	$ 664,343
Supplemental disclosure of non-cash investing and financing activities:		
Debt financing costs booked in equity	$ -	$ 676,822
PPP Loan Forgiveness	$ 1,032,316	$ -

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL

Organization

urban-gro, Inc. ("we," "us," "our," the "Company," or "urban-gro") is a leading architectural, engineering and design services company focused on the sustainable commercial indoor horticulture market. We engineer and design indoor controlled environment agriculture ("CEA") facilities and then integrate complex environmental equipment systems into those facilities. Through this work, we create high-performance indoor cultivation facilities for our clients to grow specialty crops, including leafy greens, vegetables, herbs, and plant-based medicines. Our custom-tailored approach to design, procurement, and equipment integration provides a single point of accountability across all aspects of indoor growing operations. We also help our clients achieve operational efficiency and economic advantages through a full spectrum of professional services and programs focused on facility optimization and environmental health which establish facilities that allow clients to manage, operate and perform at the highest level throughout their entire cultivation lifecycle once they are up and running.

We aim to work with our clients from inception of their project in a way that provides value throughout the life of their facility. We are a trusted partner and advisor to our clients and offer a complete set of engineering and managed services complemented by a vetted suite of select cultivation equipment systems.

Basis of Presentation

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). On December 31, 2020, we effected a 1-for-6 reverse stock split with respect to our common stock. All share and per share information in these consolidated financial statements gives effect to this reverse stock split, including restating prior period reported amounts.

Liquidity and Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business within one year after the date the consolidated financial statements are available to be issued.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Condensed Consolidated Financial Statements

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the SEC for condensed financial reporting. The condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of the Company's condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive income (loss), condensed consolidated statements of shareholders' deficit and condensed consolidated statements of cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, refer to Note 2 — "Summary of Significant Accounting Policies," in the Company's consolidated financial statements included in the Company's 2020 Form 10-K. During the six months ended June 30, 2021, there were no material changes made to the Company's significant accounting policies.

Use of Estimates

In preparing condensed consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the condensed consolidated financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates. Significant estimates include estimated useful lives and potential impairment of long-lived assets and goodwill, inventory write offs, allowance for deferred tax assets, and allowance for bad debt.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Recently Issued Accounting Pronouncements

From time to time, the Financial Accounting Standards Board (the "FASB") or other standards setting bodies issue new accounting pronouncements. The FASB issues updates to new accounting pronouncements through the issuance of an Accounting Standards Update ("ASU"). Unless otherwise discussed, the Company believes that the impact of recently issued guidance, whether adopted or to be adopted in the future, is not expected to have a material impact on the Company's financial statements upon adoption.

NOTE 3 – RELATED PARTY TRANSACTIONS

Cloud 9 Support, LLC ("Cloud 9"), a company owned by James Lowe, a director and shareholder, purchases materials from the Company. Total sales to Cloud 9 from the Company were $93,205 and $247,157 for the six months ended June 30, 2021, and 2020, respectively, and $79,199 and $114,285 during the three months ended June 30, 2021 and 2020, respectively. Outstanding receivables from Cloud 9 as of June 30, 2021 and December 31, 2020 totaled $5,626 and $61,678, respectively.

In October 2018, we issued a $1,000,000 unsecured note payable to Cloud 9, an entity owned by James Lowe, a director of the Company, which originally became due April 30, 2019 (the "James Lowe Note"). The James Lowe Note was personally guaranteed by Bradley Nattrass, our Chief Executive Officer, and Octavio Gutierrez. The loan had a one-time origination fee of $12,500. Interest accrued at the rate of 12% per annum and was paid monthly. As additional consideration for the James Lowe Note, we granted Mr. Lowe (as designee of Cloud9 Support) an option to purchase 5,000 shares of our common stock at an exercise price of $7.20 per share, which option is exercisable for a period of five years. The due date for the James Lowe Note was extended in May 2019 to December 31, 2019 and the interest rate was decreased to 9% per year. In consideration for Cloud9 Support extending the maturity date of the note and reducing the interest rate, we issued 1,667 shares of our common stock to Mr. Lowe (as designee of Cloud9 Support).

On February 21, 2020, we entered into an agreement to amend the James Lowe Note to extend the maturity date therein from December 31, 2019 to the date which is the earlier of 60 days following the date: (a) on which demand for repayment is made by the lenders under the Credit Agreement, as described in Note 9, (which is now only applicable in the case of an event of default under the Credit Agreement because of the removal of the demand feature pursuant to the First Amendment to the Credit Agreement); or (b) which is the maturity date under the Credit Agreement.

In addition, on February 25, 2020, the Company entered into a subordination, postponement and standstill agreement with Cloud9 Support (the "Subordination Agreement") pursuant to which Cloud 9 Support agreed to postpone and subordinate all payments due under the promissory note until the facilities under the Credit Agreement have been fully and finally repaid. The term for the Subordination Agreement will continue in force as long as the Company is indebted to the agent or lenders under the Credit Agreement. In consideration for Cloud9 Support's agreement to extend the maturity date of the promissory note and to enter into the Subordination Agreement, we issued 16,667 shares of common stock to Mr. Lowe (as designee of Cloud 9 Support).

On December 15, 2020, James Lowe agreed to convert the $1,000,000 James Lowe Note plus $4,500 of accrued interest (the "New James Lowe Note") into a convertible note bridge financing (see "Bridge Financing" in Note 8 – Notes Payable). The New James Lowe Note carries interest at the rate of 12% and matures on December 31, 2021. The New James Lowe Note plus accrued interest was mandatorily converted into 137,940 shares of our common stock on February 17, 2021 in connection with the other Bridge Financing notes.

NOTE 4 – PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets are comprised of prepayments paid to vendors to initiate orders and prepaid services and fees. The prepaid balances are summarized as follows:

	June 30, 2021	December 31, 2020
Vendor prepayments	$ 5,699,972	$ 2,676,493
Prepaid services and fees	512,919	365,931
Deferred financing asset (See Note 9 - Debt)	-	504,644
Prepayments and other assets	$ 6,212,891	$ 3,547,068

NOTE 5 – INVESTMENTS

The Company has a strategic investment in Edyza, Inc. ("Edyza"), a hardware and software technology company that enables dense sensor networks in agriculture, healthcare, and other environments that require precise micro-climate monitoring. The Company measures this investment at cost, less any impairment changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. The balance as of June 30, 2021 and December 31, 2020 was $1,710,358.

NOTE 6 – GOODWILL

The Company recorded goodwill in conjunction with the initial acquisition of Impact Engineering, Inc. ("Impact") on March 7, 2019. The goodwill balance as of June 30, 2021 and December 31, 2020 is $902,067. Goodwill is not amortized. There is no goodwill for income tax purposes. The Company did not record any impairment charges related to goodwill for the periods ended June 30, 2021 and 2020.

NOTE 7 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

		June 30, 2021		December 31, 2020
Accrued operating expenses	$	588,276	$	717,503
Accrued wages and related expenses		661,696		408,907
Accrued interest expense		-		99,258
Accrued sales tax payable		721,433		572,826
	$	1,971,405	$	1,798,494

Accrued sales tax payable is comprised of amounts due to various states and Canadian provinces for 2015 through 2020.

NOTE 8 – NOTES PAYABLE

The following is a summary of notes payable excluding related party notes payable:

		June 30, 2021		December 31, 2020
Paycheck Protection Program ("PPP") loan entered into on April 16, 2020. The Company applied for and has been notified that the full amount of the loan, which was used for eligible expenditures for payroll and other expenses described in the CARES Act was forgiven on June 11, 2021.	$	-		1,020,600
Convertible notes related to bridge financing. See Bridge Financing Notes below.		-		1,854,500
Total		-		2,875,100
Less current maturities		-		(1,854,500)
Long Term	$	-	$	1,020,600

During the fourth quarter of 2020 the Company entered into bridge financing notes (the "Bridge Financing Notes") totaling $1,854,500. The Bridge Financing Notes are a combination of $1,004,500 in the New James Lowe Note (See Note 3 – Related Party Transactions), $350,000 received in November 2020, and an additional $500,000 received in December 2020. The Bridge Financing Notes carry interest at the rate of 12% and mature on December 31, 2021. The Bridge Financing Notes will be mandatorily converted upon the closing of a sale of the securities of the Company, whether in a private placement or pursuant to an effective registration statement under the Securities Act, resulting in at least $2,500,000 of gross proceeds to the Company (a "Qualified Offering"). In the event of a Qualified Offering, the outstanding principal and interest of the Bridge Financing Notes will be converted into the identical security issued at such Qualified Offering at 75% of the per security price paid by investors in connection with the Qualified Offering. The Offering described in Note 12 – Shareholders Equity, was a Qualified Offering and the Bridge Financing Notes were converted into equity in connection with the Offering on February 17, 2021.

NOTE 9 – DEBT

The Company's borrowings as of June 30, 2021 and December 31, 2020 consisted of the following:

		June 30, 2021		December 31, 2020
Revolving Facility	$	-	$	3,403,143
Term Loan, net of unamortized debt issuance costs		-		1,868,320
Total		-		5,271,463
Less current debt due within one year		-		(5,271,463)
Total long-term debt	$	-	$	-

On February 21, 2020, we entered into a letter agreement (the "Credit Agreement") by and among the Company, as borrower, urban-gro Canada Technologies Inc. and Impact., as guarantors, the lenders party thereto (the "Lenders"), and Bridging Finance Inc., as administrative agent for the Lenders (the "Agent"). The Credit Agreement, which was denominated in Canadian dollars (C$), was comprised of (i) a 12-month senior secured demand term loan facility in the amount of C$2.7 million ($2.0 million), which was funded in its entirety on the closing date (the "Term Loan"); and (ii) a 12-month demand revolving credit facility of up to C$5.4 million ($4.0 million), which could be drawn from time to time, subject to the terms and conditions set forth in the Credit Agreement and described further below (the "Revolving Facility," and together with the Term Loan, the "Facilities"). The Credit Agreement was personally guaranteed by the Company's CEO and Chairman, Brad Nattrass, and was to be in place for the original term of the Credit Agreement (1 year) plus a 1-year extension period at the discretion of the Lender as provided in the Credit Agreement.

The final maturity date of the Facilities was initially stipulated in the Credit Agreement as the earlier of (i) demand, and (ii) the date that is 12 months after the closing date, with a potential extension to the date that is 24 months after the closing date (the "Initial Maturity Date"). The Facilities bore interest at the annual rate established and designated by the Bank of Nova Scotia as the prime rate, plus 11% per annum. Accrued interest on the outstanding principal amount of the Facilities was due and payable monthly in arrears, on the last business day of each month, and on the Initial Maturity Date.

The Revolving Facility could initially be borrowed and re-borrowed on a revolving basis by the Company during the term of the Facilities, provided that borrowings under the Revolving Facility were limited by a loan availability formula equal to the sum of (i) 90% of insured accounts receivable, (ii) 85% of investment grade receivables, (iii) 75% of other accounts receivable, (iv) 50% of eligible inventory, and (v) the lesser of C$4.05 million ($3.0 million) and (A) 75% of uncollected amounts on eligible signed equipment orders for equipment systems contracts and (B) 85% of uncollected amounts on eligible signed professional services order forms for design contracts. The Revolving Facility could be prepaid in part or in full without a penalty at any time during the term of the Facilities, and the Term Loan could be prepaid in full or in part without penalty subject to 60 days prior notice in each case subject to certain customary conditions.

On September 4, 2020, the Company executed an amendment to the Credit Agreement (the "First Amendment") whereas the Facilities described above were due on December 31, 2021 (the "Revised Maturity Date"). The First Amendment also increased the rate at which the Facilities will bear interest to the annual rate established and designated by the Bank of Nova Scotia as the prime rate, plus 12% per annum.

As a result of the First Amendment, the Company was required to prepay, on or before January 31, 2021, $1,000,000 of the balance of the Term Loan and begin making monthly payments of $100,000 on the balance on the Term Loan starting on March 1, 2021. Additionally, the Company was required to make monthly payments of $50,000 on the balance under the Revolving Facility beginning October 1, 2020 and could make no more draws under the Revolving Facility.

The Company incurred $1,314,868 of debt issuance costs in connection with these Facilities, of which $676,822 was non-cash in the form of Common Stock and warrant issuances. The Company estimated the fair value of these warrants at the respective balance sheet dates using the Black-Scholes option pricing based on the market value of the underlying Common Stock at the valuation measurement date of $6.00, the remaining contractual terms of the warrants of 5 years, risk free interest rate of 1.14% an expected volatility of the price of the underlying Common Stock of 100%. The Company recorded the debt issuance costs as either a deferred financing asset or a direct reduction of the loan obligation based on the pro-rata value of the Revolving Facility and Term Loan, respectively, on the closing date. The debt issuance costs were being amortized as interest expense over the life of the Facilities, until the Revised Maturity Date. On February 17, 2021, the Company repaid all amounts outstanding under the Credit Agreement and expensed the remaining unamortized debt issuance costs as loss on extinguishment of debt. As of December 31, 2020, there were $504,644 and $252,322 of unamortized debt issuance costs remaining related to the Revolving Facility and Term Loan, respectively.

NOTE 10 – RISKS AND UNCERTAINTIES

Concentration Risk

During the six months ended June 30, 2021 one client represented 46% and another client represented 15% of total revenue, compared to the six months ended June 30, 2020 where two other clients represented 17% each of total revenue. During the three months ended June 30, 2021, one client represented 60% and another client represented 11% of total revenue, compared to the three months ended June 30, 2020, when two other clients represented 25% and 11% of total revenue. At June 30, 2021 one client represented 75% and another client represented 15% of total outstanding accounts receivable. At December 31, 2020, one client represented 23% and another client represented 17% of total outstanding accounts receivable.

During the six months ended June 30, 2021, 16% of the Company's total purchases were from one vendor compared to 15% from another vendor for the six months ended June 30, 2020. During the three months ended June 30, 2021, one vendor represented 25% of the Company's total purchases, compared to the three months ended June 30, 2020, where a separate vendor consisted of 15% of the Company's total purchases. At June 30, 2021, one vendor represented 35% of total accounts payable. At December 31, 2020, a separate vendor represented 25% of total accounts payable.

Coronavirus Pandemic

The outbreak of COVID-19, a novel strain of coronavirus first identified in China, which has spread across the globe including the U.S., has had an adverse impact on our operations and financial condition. The response to this coronavirus by federal, state and local governments in the U.S. has resulted in significant market and business disruptions across many industries and affecting businesses of all sizes. This pandemic has also caused significant stock market volatility and further tightened capital access for most businesses. Given that the COVID-19 pandemic and its disruptions are of an unknown duration, they could have an adverse effect on our liquidity and profitability.

The ultimate magnitude of COVID-19, including the extent of its impact on our financial and operational results, which could be material, will depend on the length of time that the pandemic continues, its effect on the demand for our products and our supply chain, the effect of governmental regulations imposed in response to the pandemic, as well as uncertainty regarding all of the foregoing. We cannot at this time predict the full impact of the COVID-19 pandemic, but it could have a larger material adverse effect on our business, financial condition, results of operations and cash flows beyond what is discussed within this Report.

NOTE 11 – STOCK-BASED COMPENSATION

Stock-based compensation expense for the six months ended June 30, 2021 and 2020 was $590,407 and $992,549, respectively, based on the vesting schedule of the stock grants and options. Stock based compensation expense for the three months ended June 30, 2021 and 2020 was $299,602 and $559,904, respectively, based on the vesting schedule of the stock grants and options. No cash flow effects are anticipated for stock grants.

Stock Grants:

The following table shows stock grant activity for the six months ended June 30, 2021:

Grants outstanding as of December 31, 2020	118,889
Grants awarded	101,102
Grants Vested	(16,667)
Grants outstanding as of June 30, 2021	203,324

As of June 30, 2021, the Company has $642,717 in unrecognized share-based compensation expense related to these stock grants.

Stock Options:

The following table shows stock option activity for the six months ended June 30, 2021:

	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Stock options outstanding as of December 31, 2020	638,278	7.72	$ 6.48
Issued	55,833	4.51	$ 6.00
Expired	(18,444)	4.82	$ 7.89
Exercised	(4,777)	-	$ 6.78
Stock options outstanding at June 30, 2021	670,890	7.55	$ 6.39
Stock options exercisable at June 30, 2021	365,362	7.69	$ 6.46

The fair value of the options is calculated using the Black-Scholes pricing model based on the market value of the underlying common stock at the valuation measurement date of $9.39 the remaining contractual term of the options of 5 years, risk-free interest rate of 1.61% and expected volatility of the price of the underlying common stock of 100%.

As of June 30, 2021, the Company has $515,320 in unrecognized share-based compensation expense related to these stock options. The aggregate intrinsic value of the options outstanding and exercisable at June 30, 2021 is $0.

NOTE 12 – SHAREHOLDERS' EQUITY

In March 2020, an executive left the Company and returned 16,667 common shares as part of the related separation agreement. The Company retired the shares and reduced its issued and outstanding stock by 16,667 shares.

On February 17, 2021, we completed an offering of 6,210,000 shares of our common stock, inclusive of the underwriters full overallotment, at $10.00 per share for total gross offering proceeds of $62,100,000. In connection with this offering, we received approval to list our common stock on the Nasdaq Capital Market under the symbol "UGRO".

On May 24, 2021, we announced that the Board of Directors authorized a stock repurchase program to purchase up to $5.0 million of the currently outstanding shares of the Company's common stock, over a period of 12 months through open market purchases, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. Under this program, the Company has repurchased 52,895 shares of common stock as of June 30, 2021.

NOTE 13 – WARRANTS

The following table shows warrant activity for the six months ended June 30, 2021.

	Number of shares		Weighted Average Exercise Price
Warrants outstanding as of December 31, 2020	202,752	$	13.64
Exercised	(18,412)	$	24.00
Issued in connection with equity offering	310,500	$	12.50
Expired	(116,674)	$	18.00
Warrants outstanding as of June 30, 2021	377,166	$	11.16
Warrants exercisable as of June 30, 2021	377,166	$	11.16

The fair value of the warrants issued in connection with the equity offering were calculated using the Black-Scholes pricing model based on the market value of the underlying common stock at the valuation measurement date of $10.00, the remaining contractual term of the options of 5 years, risk-free interest rate of 0.57% and expected volatility of the price of the underlying common stock of 100%.

The weighted-average life of the warrants is 2.20 years. The aggregate intrinsic value of the warrants outstanding and exercisable at June 30, 2021 is $0.

NOTE 14 – SUBSEQUENT EVENTS

The Company has evaluated events and transaction occurring subsequent to June 30, 2021 up to the date of this filing of these condensed consolidated financial statements. These statements contain all necessary adjustments and disclosures resulting from that evaluation.

On July 30, 2021, the Company announced that it had completed the acquisitions of 2WR of Colorado, Inc., a Colorado corporation, 2WR of Georgia, Inc., a Georgia corporation, and MJ12 Design Studio, Inc., a Colorado corporation (" the 2WR Entities"), and had entered into an affiliate relationship with 2WR of Mississippi, P.C., a Mississippi professional corporation, agreements that were initially announced on June 28, 2021. The acquisitions of the 2WR Entities were for a total purchase price of up to $9,100,000, consisting of $5,100,000 in cash and $2,000,000 of the Company's stock at the closing of the transactions and up to $2,000,000 of additional earnout payments to the sellers of the 2WR Entities payable quarterly over a two-year period from the date of closing of the transaction, based on the 2WR Entities achieving agreed upon gross profit targets. The earnout payments, if and when earned, can be paid in cash or stock at the Company's discretion. The Company's initial accounting for the 2WR Entities acquisitions has not been completed because the valuations have not yet been received from the Company's independent valuation firm.

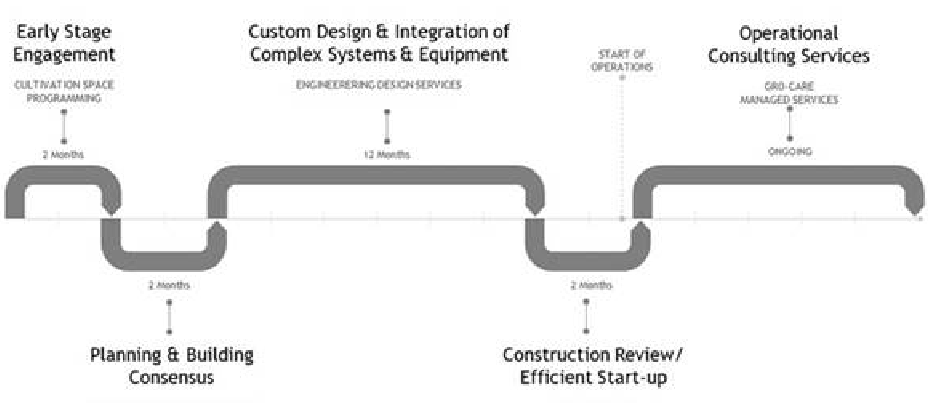
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our condensed consolidated financial statements and notes thereto included herein. See also "Forward Looking Statements" on page 3 of this Report.

Overview and History

urban-gro, Inc. ("we," "us," "our," the "Company," or "urban-gro") is a leading architectural, engineering and design services company focused on the sustainable commercial indoor horticulture market. We engineer and design indoor controlled environment agriculture ("CEA") facilities and then integrate complex environmental equipment systems into those facilities. Through this work, we create high-performance indoor cultivation facilities for our clients to grow specialty crops, including leafy greens, vegetables, herbs, and plant-based medicines. Our custom-tailored approach to design, procurement, and equipment integration provides a single point of accountability across all aspects of indoor growing operations. We also help our clients achieve operational efficiency and economic advantages through a full spectrum of professional services and programs focused on facility optimization and environmental health which establish facilities that allow clients to manage, operate and perform at the highest level throughout their entire cultivation lifecycle once they are up and running.

We aim to work with our clients from inception of their project in a way that provides value throughout the life of their facility. We are a trusted partner and advisor to our clients and offer a complete set of engineering and managed services complemented by a vetted suite of select cultivation equipment systems. Outlined below is an example of a complete project with estimated time frames for each phase that demonstrate how we provide value to our clients for *the life of their facility*.



Our indoor commercial cultivation solution offers an integrated suite of services and equipment systems that generally fall within the following categories:

- Service Solutions:
  - Architecture, Engineering Design Services – A comprehensive triad of services including:
    1. Architecture
    2. Cultivation Space Programming ("CSP")
    3. Integrated Cultivation Design ("ICD")
    4. Full-Facility Mechanical, Electrical, and Plumbing ("MEP")
  - gro-care® - A recurring revenue subscription-based managed service offering including:
    1. Remote Monitoring, Reporting, Support, and Training Services
    2. Facility and Equipment Commissioning & Audit Services
    3. Environmental Sciences Groups' ("ESG") Compliance and Program Services
- Integrated Equipment Solutions:
  - Design, Source, and Integration of Complex Environmental Equipment Systems Including Purpose-Built Heating, Ventilation, and Air Conditioning ("HVAC") solutions, Environmental Controls, Fertigation, and Irrigation Distribution.
  - Value-Added Reselling ("VAR") of Cultivation Equipment including a Complete line of Lighting, Fans and Rolling Benching Systems
  - Strategic Vendor Relationships with Premier Manufacturers

The majority of our clients are commercial CEA cultivators. We believe one of the key points of our differentiation that our clients value is the depth of experience of our employees and our Company. We currently employ 75 individuals. Approximately two-thirds of our employees are considered experts in their areas of focus, and our team includes Architects, Engineers (Mechanical, Electrical, Plumbing, Controls, and Agricultural), Professional Engineers, horticulturalists and individuals with Masters Degrees in Plant Science and Business Administration. As a company, we have worked on more than 450 indoor CEA facilities, and believe that the experience of our team and Company provide clients with the confidence that we will proactively keep them from making common costly mistakes during the build out and operational stages. Our expertise translates into clients saving time, money, and resources, and provides them ongoing access to expertise that they can leverage without having to add headcount to their own operations. We provide this experience in addition to offering a platform of the highest quality equipment systems that can be integrated holistically into our clients' facilities.

Results Of Operations

Comparison of Results of Operations for the three months ended June 30, 2021 and 2020

During the three months ended June 30, 2021, we generated revenues of $12.8 million compared to revenues of $4.0 million during the three months ended June 30, 2020, an increase of $8.8 million, or 220%. Equipment systems revenue increased $9.1 million primarily due to an increase in cultivation equipment sales, services revenue decreased $0.3 million and consumable product sales increased $0.1 million.

During the three months ended June 30, 2021, cost of revenues was $9.9 million compared to $2.8 million during the three months ended June 30, 2020, an increase of $7.1 million, or 252%. This increase is directly attributable to the increase in revenues indicated above.

Gross profit was $2.9 million (23% of revenues) during the three months ended June 30, 2021 compared to $1.2 million (30% of revenue) during the three months ended June 30, 2020. Gross profit as a percentage of revenues decreased due to a significant increase in lower margin equipment systems revenues for the comparable periods.

Operating expenses increased $0.6 million to $2.7 million for the three months ended June 30, 2021 compared to the three months ended June 30, 2020. This was due to the offsetting effects of a $0.8 million increase in general operating expenses, mainly due to an increase in salary and travel expenses and a $0.3 million reduction in stock-based compensation expense.

Non-operating income was $1.0 million for the three months ended June 30, 2021, compared to non-operating expenses of $0.6 million for the three months ended June 30, 2020. The Company recorded a $1.0 million gain from the PPP loan forgiveness in the three months ended June 30, 2021. For the three months ended June 30, 2020, the company incurred interest expense of $0.4 million and recorded an impairment loss of $0.3 million.

As a result of the above, we incurred net income of $1.3 million for the three months ended June 30, 2021, or a gain per share of $0.11, compared to a net loss of $1.6 million for the three months ended June 30, 2020 or a loss per share of ($0.33).

Comparison of Results of Operations for the six months ended June 30, 2021 and 2020

During the six months ended June 30, 2021, we generated revenues of $24.9 million compared to revenues of $8.2 million during the six months ended June 30, 2020, an increase of $16.7 million, or 201%. Equipment systems revenue increased $16.9 million primarily due to an increase in cultivation equipment sales, services revenue decreased $0.5 million and consumable product sales increased $0.2 million.

During the six months ended June 30, 2021, cost of revenues was $19.3 million compared to $6.0 million during the six months ended June 30, 2020, an increase of $13.3 million, or 224%. This increase is directly attributable to the increase in revenues indicated above.

Gross profit was $5.6 million (22% of revenues) during the six months ended June 30, 2021 compared to $2.3 million (28% of revenue) during the six months ended June 30, 2020. Gross profit as a percentage of revenues decreased due to a significant increase in lower margin equipment systems revenues for the comparable periods.

Operating expenses increased $0.6 million to $5.2 million for the six months ended June 30, 2021 compared to the six months ended June 30, 2020. This was due to the offsetting effects of a $0.9 million increase in general operating expenses, mainly due to an increase in salary and travel expenses, offset by a $0.4 million reduction in stock-based compensation expense.

Non-operating expense was $0.7 million for the six months ended June 30, 2021, compared to $0.9 million for the six months ended June 30, 2020. The Company incurred a $1.0 million gain from the forgiveness of the PPP loan, an $0.8 million loss on the extinguishment of debt, a $0.6 million expense related to the conversion of debt to equity at a discount to the offering price, and interest expense of $0.3 million for the six months ended June 30, 2021. For the six months ended June 30, 2020, the company incurred interest expense of $0.7 million and recorded an impairment loss of $0.3 million.

As a result of the above, we incurred net loss of $0.3 million for the six months ended June 30, 2021, or a loss per share of ($0.03), compared to a net loss of $3.3 million for the six months ended June 30, 2020 or a loss per share of ($0.69).

NON-GAAP FINANCIAL MEASURES

The Company uses the supplemental financial measure of Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA") as a measure of our operating performance. Adjusted EBITDA is not calculated in accordance with accounting principles generally accepted in the United States of America ("GAAP") and it is not a substitute for other measures prescribed by GAAP such as net income (loss), income (loss) from operations, and cash flows from operating activities. We define Adjusted EBITDA as net income (loss) attributable to urban-gro, Inc., determined in accordance with GAAP, excluding the effects of certain operating and non-operating expenses including, but not limited to, interest expense, depreciation of tangible assets, amortization of intangible assets, impairment of investments, unrealized exchange losses, debt forgiveness, and stock-based compensation expense that we do not believe reflect our core operating performance.

Our board of directors and management team focus on Adjusted EBITDA as a key performance and compensation measure. We believe that Adjusted EBITDA assists us in comparing our operating performance over various reporting periods because it removes from our operating results the impact of items that our management believes do not reflect our core operating performance.

The following table reconciles net loss attributable to the Company to Adjusted EBITDA for the periods presented:

	Three months Ended June 30,		Six months Ended June 30,	
	2021	2020	2021	2020
Net Income (Loss)	$ 1,257,444	$ (1,569,970)	$ (331,138)	$ (3,265,601)
Interest expense	4,624	365,709	322,067	664,343
Interest expense – BCF	–	–	636,075	–
Loss on extinguishment of debt	–	–	790,723	–
Stock-based compensation	299,602	559,904	590,407	992,549
Impairment of investment	–	310,000	–	310,000
Depreciation and amortization	53,941	59,396	109,626	120,411
PPP Loan forgiveness	(1,032,316)	-	(1,032,316)	-
Adjusted EBITDA	$ 583,295	$ (274,961)	$ 1,085,444	$ (1,178,298)

As of December 31, 2020, the Company began reporting the dollar amount of contractually committed orders for equipment systems for which revenue has not been recognized ("Backlog"). Backlog is a non-GAAP financial measure that our board of directors and management team focus on as a key performance measure. Although there can be no assurances that Backlog will be recognized as equipment systems revenue in future periods, we believe that tracking Backlog assists us in estimating the timing of future equipment systems revenue. Backlog as of June 30, 2021 was $27.9 million. This compares to Backlog of $15.2 million and $14.6 million as of March 31, 2021 and December 31, 2020, respectively.

Liquidity and Capital Resources

As of June 30, 2021, we had cash of $50.4 million, which represented an increase of $50.2 million from December 31, 2020. This increase in cash and cash equivalents is primarily due to the net proceeds received from our equity offering in February of 2021 of $58.2 million offset by $5.8 million of debt repayment and $3.5 million of treasury stock purchases during the six months ended June 30, 2021.

Net cash provided by operating activities was $1.3 million during the six months ended June 30, 2021, compared to net cash used in operating activities of $3.2 million during the six months ended June 30, 2020, an improvement of $4.5 million. This increase in cash provided by operating activities is primarily the result of an improvement in income from operations for the comparable periods with the remaining fluctuation being primarily comprised of fluctuations in operating assets and liabilities. At June 30, 2021, we had $4.5 million in client deposits related to client orders, compared to client deposits of $4.9 million as of December 31, 2020. We require prepayments from clients before any design work is commenced and before any material is ordered from the vendor. These prepayments are booked to the client deposits liability account when received. We expect client deposits to be relieved from the deposits account no longer than 12 months for each project. At June 30, 2021, we had $6.2 million of vendor prepayments compared to $3.5 million at December 31, 2020. At June 30, 2021, we had $2.3 million in accounts payable, compared to $0.7 million at December 31, 2020.

Net cash used in investing activities was $0.0 million for the six months ended June 30, 2021, compared to $0.1 million during the six months ended June 30, 2020. Historically, cash has been used to increase our investments in strategic partnerships and to acquire property and equipment. We will continue to have ongoing needs to purchase property and equipment to maintain our operations. We have no material commitments for capital expenditures as of June 30, 2021.

Net cash provided by financing activities was $49.0 million for the six months ended June 30, 2021, compared to $3.2 million during the six months ended June 30, 2020. Cash provided from financing activities during the six months ended June 30, 2021 primarily relates to $58.3 million in net proceeds received from the issuance of stock, offset by $5.8 million used in the repayment of notes payable and $3.5 million in treasury shares acquired.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the three months ended June 30, 2021.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions For a detailed discussion about the Company's significant accounting policies, refer to Note 2 — "Summary of Significant Accounting Policies," in the Company's consolidated financial statements included in the Company's 2020 Form 10-K. During the six months ended June 30, 2020, there were no material changes made to the Company's significant accounting policies.

OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any 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, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a smaller reporting company and are not required to provide the information under this Item pursuant to Regulation S-K.

ITEM 4. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures – Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Report.

These controls are designed to ensure that information required to be disclosed in the reports we file or submit pursuant to the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our CEO and CFO to allow timely decisions regarding required disclosure.

Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of June 30, 2021, at reasonable assurance levels.

We believe that our financial statements presented in this Form 10-Q fairly present, in all material respects, our financial position, results of operations, and cash flows for all periods presented herein.

Inherent Limitations – Our management team, including our CEO and CFO, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. In particular, many of our current processes rely upon manual reviews and processes to ensure that neither human error nor system weakness has resulted in erroneous reporting of financial data.

Changes in Internal Control over Financial Reporting – There were no changes in our internal control over financial reporting during our six months ended June 30, 2021, which were identified in conjunction with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, 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

The company has been sued in a putative breach of contract case in the District Court for Arapahoe County, CO. Crest Ventures, LLC v. urban-gro, Inc. (Case No. 2021CV31301 filed on July 30, 2021). The allegations in the action are based on a claim that Crest Ventures, LLC is entitled to commission compensation on the recent urban-gro, Inc. public stock offering. We believe we have substantial defenses to the claims asserted in this lawsuit and intend to vigorously defend this action.

To the best of our management's knowledge and belief, there are no additional material claims that have been brought against us nor have there been any claims threatened.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information 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 DISCLOSURE

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 11, 2021.

URBAN-GRO, INC.

By: */s/ Bradley Nattrass*
Bradley Nattrass,
Principal Executive Officer, a duly authorized officer

By: */s/ Richard Akright*
Richard A. Akright, Principal Financial Officer and Principal Accounting Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Bradley Nattrass certify that:

1. I have reviewed this quarterly report on Form 10-Q of urban-gro, 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 this report is 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 principles;

   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; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 11, 2021

/s/ Bradley Nattrass
Bradley Nattrass, Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14 OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard Akright, certify that:

1. I have reviewed this quarterly report on Form 10-Q of urban-gro, 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 this report is 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 principles;

   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; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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 involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 11, 2021

/s/ Richard Akright
Richard A. Akright, Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C., SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report of urban-gro, Inc. (the “Company”) on Form 10-Q for the quarterly period ended June 30, 2021, as filed with the Securities and Exchange Commission on August ??, 2021, (the “Report”), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 11, 2021	*/s/ Bradley Nattrass*
	Bradley Nattrass, Chief Executive Officer
Dated: August 11, 2021	*/s/ Richard Akright*
	Richard Akright, Chief Financial Officer