U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark one)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED **DECEMBER 31, 2021**

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 for the transition period from ________________ to________________________.

Commission File Number: **001-39933**

URBAN-GRO, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**46-5158469** (IRS Employer Identification No.)

1751 Panorama Point **Unit G** **Lafayette, CO** (Address of principal executive office)	**80026** (Zip Code)	**(720) 390-3880** (Registrant's telephone number, Including area code)

Securities registered pursuant to Section 12(b) of the Act:

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒No

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, 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter on June 30, 2021 was $72,335,767.

As of March 29, 2022, the registrant had10,203,514 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Annual Report on Form 10-K is incorporated by reference from the Registrant's definitive proxy statement relating to the 2022 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This Annual Report on Form 10-K (this "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"). 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, and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements.

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". 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 Securities and Exchange Commission ("SEC").

PART I

ITEM 1. BUSINESS

Background

urban-gro, Inc. (together with its wholly owned subsidiaries, collectively "urban-gro", "we", "us" or "the Company") was originally formed on March 20, 2014, as a Colorado limited liability company. In March 2017, we converted to a Colorado corporation and exchanged shares of our common stock for every member interest issued and outstanding on the date of conversion. On October 29, 2020, we reincorporated as a Delaware corporation. On December 31, 2020, we effected a 1-for-6 reverse stock split with respect to our common stock. All information in this Report gives effect to this reverse stock split, including restating prior period reported amounts. On February 12, 2021, we completed an uplisting to the Nasdaq stock exchange under the ticker symbol UGRO.

Overview

urban-gro is a leading architectural design, engineering and cultivation design services company focused on the sustainable commercial indoor horticulture market. We design and engineer indoor controlled environment agriculture ("CEA") facilities, then integrate complex environmental equipment systems into those facilities, and provide ongoing maintenance, training, and support services. CEA is a market segment that is defined by type of facility, and has no correlation to the industry, or more specifically the crop being grown in the facility. The CEA segment is represented by any horticultural facility that is fully self-contained, and has a fully-controlled environment. There are three facility types that meet these qualifications:

i. Indoor Facilities - new building; or the retrofit of an existing building;
ii. Vertical Farms – a building with a smaller footprint that is built up vertically and we view this category as including modular container farms; and
iii. Greenhouses – traditional and made out of a variety of translucent materials as to provide natural sunlight for the crop being grown.

While historically we have been focused on designing, engineering, and integrating equipment into indoor CEA facilities, of which some are ultimately used for the cultivation of plant-based medicines, we have expanded our reach within CEA across both facility type and crop type. The term "plant-based medicines" includes (i) a wide array of herbal supplements including but not limited to curcumin, saffron extract and ginger, (ii) cannabidiol ("CBD") based therapeutics, (iii) cannabis based therapeutics and (iv) a host of medicines derived from plants such as caffeine, menthol, foxglove and others. We have also focused and expanded into the vertical farming CEA sub-segment, which is ultimately and predominantly used for the cultivation of a variety of crops including, but not limited to, leafy greens, herbs, cucumbers, peppers, and strawberries.

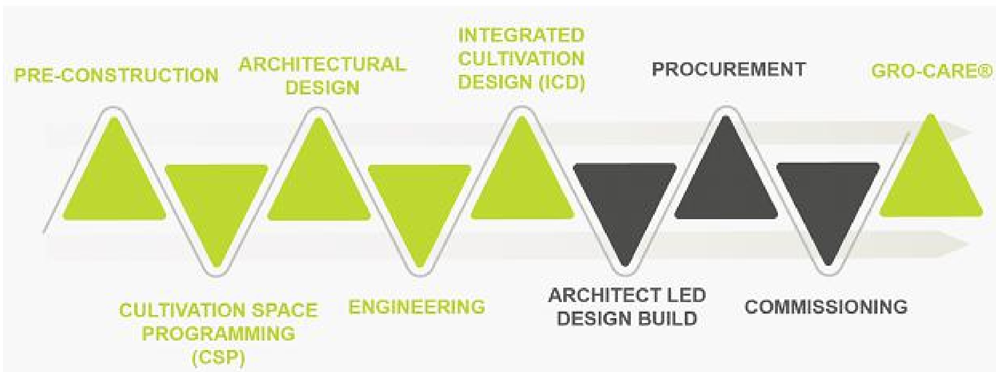
Through our work, we create high-performance indoor cultivation facilities for our clients to grow specialty crops, including leafy greens, vegetables, herbs, and cannabis. Our purpose-built, value-add approach to design, engineering, procurement, and equipment integration provides a single point of 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.

Since commencing business in March 2014, we have introduced new equipment solutions, products and services to the CEA market, expanded our ongoing operations across North America, added CEA-focused design and engineering to our services portfolio, diversified into food-focused CEA, and have entered into several engagements in Europe, where we have opened urban-gro European Holdings BV based in the Netherlands to help shepherd those engagements.

The majority of our clients are commercial CEA cultivators. We believe one of the key points of our differentiation that clients value is the depth of experience of our employees and our Company. We currently employ 97 individuals. Approximately two-thirds of our employees are considered experts in their areas of focus, and our team includes Designers (Architects, Interior Designers, Cultivation Space Planners), Engineers (Mechanical, Electrical, Plumbing, Controls, and Agricultural), Professional Engineers, and individuals with Masters Degrees in Plant Science, Horticulture, and Business Administration. As a company, we have worked on nearly 500 indoor CEA facilities, and believe that the experience of our team and Company provides clients with the confidence that will proactively keep them from making common costly mistakes during the build out process that impact operational stages. Our expertise translates into clients saving time, money, and resources through 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.

Our Services and Integrated Equipment Solutions

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 design, engineering and managed services complemented by a vetted suite of select cultivation equipment systems. Outlined below is an example of a complete project that demonstrate how we provide value to our clients.



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

- Service Solutions:
  - Design and Engineering Services

    Engineering and Design Services – A comprehensive triad of services including:

    i. Pre-Construction Services

    ii. Cultivation Space Programming ("CSP")

    iii. Architectural Design

    iv. Full-Facility Mechanical, Electrical, and Plumbing ("MEP")

    v. Integrated Cultivation Design ("ICD")

  - An ongoing service offering including:

    i. Facility and Equipment Commissioning Services

    ii. Gro-Care Crop and Asset Protection Services including Training Services, Equipment Maintenance Services, Crop Protection Program, and an Interactive Online Portal Hub for Gro-Care

- Integrated Equipment Solutions:

    i Design, Source, and Integration of Complex Environmental Equipment Systems

    ii Value-Added Reselling ("VAR") of Cultivation Equipment Systems

    iii Strategic Vendor Relationships with Premier Manufacturers

Service Solutions

Design and Engineering Services

As a leader in indoor CEA facilities, we provide our clients with service offerings that include architectural, interior, and engineering design as well as the operational stages of the facility. Our in-house architectural design, engineering and cultivation design services offering includes Pre-Construction, CSP, Architectural Design, Interior Design, MEP, and ICD.

- Pre-Construction Services include providing a forecast summary of what it will take to get a high-performance facility built, giving initial indication and detailed analysis of budget, timeline/schedule, and potential large decision impacts including value analysis and engineering options. The integration of Pre-Construction Services can expedite project delivery.
- CSP is an early-stage engagement with stakeholders that provides an optimized basis of design including the interaction of people, plants, and processes. The output of CSP provides an optimized analysis of spatial needs based on stipulated criteria and can accelerate construction and regulatory approval paths, save stakeholders money and time, and enable a process-driven decision-making approach.
- Architectural Design is the implementation of a defined process from development of vision to built environment. Architecture includes the integration and coordination of all project required disciplines such as civil, landscape, structural, mechanical and electrical engineering, plumbing, security, interior design, and other specialty disciplines. Our services are built around an integrated design process focused on the collaborative development of client-driven solutions. Specific to the CEA industry, our team's understanding of the relationship between people, plants, and process helps clients maximize profits and efficiencies while minimizing capital investments, and operational and maintenance costs.
- Interior Design involves branding and development of the interior aesthetic vision. Our collaborative and integrated approach from our award-winning team begins with inspiration boards focused on understanding the client's aesthetic desires. Interior design is holistic and thereby includes all aspects of the building interiors from full branding to the selection and design of all finishes and interior systems. Common discussions beyond aesthetics include the cost, durability, and maintainability of systems presented.
- MEP engineering design focuses on the entire building, not just the cultivation space, which in turn eliminates the "gap" between cultivation systems and the building systems. We provide engineered construction contract documents for mechanical, heating, ventilation, and air conditioning ("HVAC"), plumbing and electrical systems required for the building permits necessary to obtain a Certificate of Occupancy. Our team evaluates client capabilities, needs, desires, and budget in development of recommended systems through a client-focused collaborative process culminating in the delivery of high-performance and low-maintenance systems.
- ICD creates cultivation space-focused design layouts that integrate climate control, fertigation, benching, air flow, and lighting. Our ICD team's deep understanding of cultivation systems provides the foundation for ensuring optimal space utilization as they utilize an integrated and collaborative design process focused on understanding, vetting, and implementing the client's vision. Products utilized in the ICD's basis-of-design ensures the integration of high-quality systems and product performance. These detailed ICD plans are taken through the Construction Document stage and are leveraged by our clients to efficiently solicit contractor bids.

Our Service Offerings

gro-care is a highly differentiated service offering that provides a combination of facility commissioning and a crop and asset protection program through training, equipment maintenance, on-demand support, crop protection standard operating procedures (SOP)s, and a client-specific Operating Support System (OSS) that acts as an online hub for clients' ongoing services. Combined, this solution focuses on the troubleshooting, tuning, and support of a myriad of cultivation systems and equipment while further providing guidance for client interactions with tradespeople working on HVAC, electrical, and plumbing in the facility on an ongoing basis.

Many of the current service options available to clients are isolated to vendors providing post-sale service for a single piece of equipment. Our service provides a cultivation-level view of the complex system made up by each piece of equipment, allowing for rapid installation, continuous process improvement, and greater revenue recognition for our clients

Facility and Equipment Commissioning Services. Today's cultivation systems are custom designed and extremely complex. Our team of project managers and engineers supports the installation process by coordinating with a client's engineers and stakeholders to avoid project bottlenecks while supporting construction trades. Our commissioning team ensures that the equipment is installed according to the design and operates per the defined manufacturer specifications.

gro-care Training Services. Complex cultivation systems encompass a multitude of variables and environment readings such as temperature, relative humidity, vapor pressure differential (VPD), electrical conductivity (EC), pH, network status, light status, photosynthetically active radiation, sunrise/sunset modules, CO_2, HVAC status, fan status, vents (including windward and leeward), shades, network status and flow rates. In CEA there is a scarcity of skilled labor which impedes our clients' ability to drive operating proficiency across their teams. Our engineering team uses a series of tools and processes to ensure clients are proactive in preventing equipment downtime, can operate all equipment and processes fluently, and have expert support in resolving potential issues. These services range from equipment standard operating procedure ("SOP") libraries to staff training sessions. With a unique knowledgebase acquired from both our commissioning and training for a wide breadth of cultivation equipment, we provide our clients' teams with the skills to minimize equipment downtime and optimize processes in their facilities.

gro-care Maintenance Services. Complex cultivation systems require specific and ongoing maintenance. Our team enables clients to perform this maintenance appropriately or even can perform the maintenance for them so that assets operate at their highest efficiency and any issues are encountered early.

gro-care Support Services When problems arise in a facility, our team is on-call to provide analysis, support, and even in-person visits to help make sure the issue is addressed prior to impacting any facility operations.

Program Overview and Pricing. We estimate that, on average and depending on the crop, CEA facilities can lose up to $10,000 per 1,000 square feet of canopy per day when offline – our gro-care Crop and Asset Protection services are centered around proactively minimizing this potential loss for a fraction of the cost. Our clients are best described as automation- and margin-focused and have an understanding of the importance of preventing downtime in their facilities.

Integrated Equipment Solutions

While our engineers play an integral part in the design of most of the complex equipment systems that are then integrated into a CEA facility, we also provide consultative reselling of more common solutions that we integrate into the overall design. For CEA, the environmental goal is to maintain a stable and consistent VPD according to the client's priorities through environmental control of relative humidity and temperature during all stages of growth. There are four main variables in CEA that affect plant growth (and can impact VPD): (i) water and nutrients; (ii) environmental control; (iii) CO_2; and (iv) lighting.

Design, Source, and Integration of Complex Environmental Equipment Systems

Complex Environment Systems for CEA include the integration of environmental controls, fertigation and irrigation distribution, a complete line of water treatment and wastewater reclamation systems, and purpose-built HVAC equipment systems.

The most significant variable of interest in a CEA facility is the control of the environment, which is accomplished through the integration of both environmental controls and the purpose-built HVAC system. Without proper design, the environmental control system is the most influential variable in terms of temperature and relative humidity control within an indoor agriculture space. With properly designed equipment, the environmental controls variable is less volatile, enabling efficient growing conditions.

Purpose-built HVAC equipment systems will provide a more stable environment, maximize plant health and yields, minimize crop loss, minimize utility costs, save on capital equipment, and maximize sustainability. Additionally, private studies of a partner comparing purpose-built HVAC environmental controls equipment to standard commercial HVAC and dehumidification, found increased crop yields with purpose-built equipment, which can include chilled water and DX systems.

VAR of Cultivation Equipment Systems

We act as an experienced VAR to our clients when selling vetted best-in-class commercial horticulture lighting solutions, rolling and automated container benching systems, specialty fans, and microbial mitigation and odor reduction systems. The acquired knowledge of how each of these systems work in combination with and in tangent to the overall ecosystem is a significant benefit that our engineers and product experts offer to our clients. Not only are many competing products reviewed in each category with the intention of vetting the best solution, we continually search out and review competing technologies to ensure that only the best-in-class equipment systems are integrated into our projects. As such, we believe it will be imperative to maintain and to continue to develop close relationships with both existing and new leading technology and manufacturing providers.

Today, we typically do not sell any cultivation equipment systems individually as a one-time sale. The majority of equipment sales are sold as part of a larger all-encompassing project solution that spans over a 12 to 18 month period and includes engineering design and the sale of both custom complex and more standard equipment systems.

Strategic Vendor Relationships with Premier Manufacturers

We work closely with leading technology and manufacturing providers to deliver an integrated solution designed to achieve the stated objectives of our clients. While we previously manufactured certain lighting products, we discontinued all manufacturing in 2019, although we continued to sell existing inventory through 2020. Today we are equipment agnostic – meaning we do not have any allegiance to any manufacturer – we offer the solution that will best fit the design and budget constraints of our clients and are happy to design, engineer, and integrate in whatever equipment fits the needs of our clients.

Revenues and Gross Profit Margins by Category. Service Revenues for engineering design services contracts can be hundreds of thousands of dollars, depending on the spectrum of services desired by the client and the size of the facility. Product Revenues for customized equipment systems can be millions of dollars, depending on the size of the cultivation facilities, the complexity and types of systems purchased by the client, and the number of systems purchased by the client. Sales of consumable products are typically of a recurring nature each month to a client and can be in the tens of thousands of dollars.

Targeted gross profit margins for each of the Company’s revenue categories are as follows:

- Architectural and Engineering design services – thirty to sixty percent;
- gro-care Crop and Asset Protection services – forty to sixty percent;
- Customized equipment systems - mid-teens to mid-thirty percent; and
- Consumable products revenues - high-teens to high-twenty percent.

Gross profit margins on engineering design services and customized equipment systems are highly dependent on the complexity and size of the project.

Our Clients

We primarily market and sell our products and services to CEA operators and facilitators in the United States and Canada. Our historical client base has been comprised of indoor commercial cultivators seeking to grow high-quality cannabis crops. Since launching the engineering and design division in 2018, we have designed and assisted in the build-out of 500+ projects for some of the largest independent and multi-state operators in both the United States and Canada. Although the cannabis market has been our historical target market and an unknown but substantial portion of all of our revenues to date have been generated from clients in the cannabis industry, we have been diversifying our client base by expanding our reach within food-focused vertical farming indoor CEA and maintaining non-CEA business lines from our architectural and engineering teams. The term “plant-based medicines” includes (i) a wide array of herbal supplements including but not limited to curcumin, saffron extract and ginger, (ii) CBD based therapeutics, (iii) cannabis-based therapeutics and (iv) a host of medicines derived from plans such as caffeine, menthol, foxglove and others. We are focusing on expanding to the vertical farming CEA sub-segment, which is ultimately and predominantly used for the cultivation of a variety of crops including, but not limited to, leafy greens, herbs, cucumbers, peppers, and strawberries, as well as continue our expansion into Europe to meet the demand for our solutions within the indoor CEA market.

Environment, Social, and Governance

We are continuously striving to develop, maintain, and build upon our environmental, social, and governance (“ESG”) practices.

- **Environment:** As a leader in the CEA space, urban-gro has a continuing commitment to Environmental Sustainability in order to help form a better, healthier world for future generations. Utilizing the expertise of our employees, we create less waste, water consumption, and carbon emissions for over 500 facilities worldwide and counting. We believe we present a strong opportunity for the growing market of investors looking for profitable growth companies dedicated to providing a more sustainable world for generations to come. As technological advancement continues, we plan to work with our partners to create even more earth-friendly cultivation sites in our hopes of carbon neutrality.
- **Social**: We leverage our leadership position in the market as an opportunity to promote our corporate values of inclusion, innovation, and connection.
  - **<u>Inclusion</u>**: Internally, we hire and promote underrepresented communities in STEM (science, technology, education, mathematics). Our project design and engineering teams reflect our commitment as demonstrated by leadership positions held by women across our project design, project management, and client engagement departments.
  - **<u>Innovation</u>**: CEA is an industry that is rapidly advancing, testing, and adopting new technologies. Our corporate development team works closely with our project design and engineering teams to vet new products and ensure they align with our corporate responsibility needs.
  - **<u>Connection:</u>** Through our outreach efforts across the world, we represent a company committed to the development and nurturing of a deeper understanding across all disciplines of CEA, food production, and being on the leading edge of emerging industry-related innovations.
    - Through our Client Appreciation Events at major tradeshows across North America, we raise awareness and funds for local charities. These events serve as opportunities for non-profits to bolster career opportunities, economic development, veteran health and housing, and other causes.
    - We have been a long-time supporter of HeroGrown, an organization that provides Veterans, First Responders, and their families with free access to benefit-rich CBD. Through “Operation CBD Drop,” HeroGrown provides an alternative to those struggling with addiction to deadly drugs prescribed for service-related injuries and psychological disorders.
    - We have been a supporter of Teens for Food Justice which is catalyzing a youth-led movement to end food insecurity in one generation through high-capacity, school-based hydroponic farming. We have even helped build out and commission their first in-classroom vertical farm in the Denver area located near our headquarters and have committed our team’s time to mentoring students and helping further TFFJ’s goals.
- **Governance:** We have three main approaches we utilize to guide us for a successful governance program to ensure that our stakeholders’ best interests are acted upon:
    - Board Composition: We have a strong and diverse board made up of leaders from a variety of fields that help guide our overall efforts.
    - National Cannabis Roundtable: We sit on the board of the National Cannabis Roundtable, an organization dedicated to sensible regulation, criminal justice reform, social equity and community reinvestment.
    - Audit Committee. Our Audit Committee is focused on internal controls and multi-discipline oversight enabled by its charter and structure.

Growth Strategy

Our employees and the application of their acquired knowledge is our most valuable asset as an organization. Our growth strategy involves leveraging this considerable strength as a basis for growth across three pillars of focus and exploration. These three pillars allow us to continue to provide value to our current and future clients:

1. Diversifying our Service Capabilities
2. Expansion of Geographical Reach
3. Expansion within the Commercial Horticulture Segment

1. Diversifying our Service Capabilities

We intend to be the global leading provider for purpose-built turnkey indoor CEA facilities. To that end, we will seek to diversify our service capabilities to enable that offering of providing value to clients through acting as a single point of responsibility in our turnkey approach. While we will continue to expand our services organically, we began this journey through the acquisition of Impact Engineering, Inc in 2019, the acquisition of 2WR+ Partners in 2021, and will continue to look for inorganic opportunities that propel us forward towards our vision. Examples of these opportunities include services that we do not currently have in-house that provide meaningful value to clients and also represent meaningful revenue gaps for us – amongst these are services like construction management, additional design-build engineering disciplines, and further niche-specific indoor CEA operational support. We believe that acting as a single point of responsibility as a provider for turnkey solutions, especially one with the depth and breadth of experience within indoor CEA facilities, we can get our clients to market more quickly and more efficiently than others. We have always aimed to provide the highest level of service and expertise to our clients from initial cultivation ideation to helping prior to go-live to proactively solve for issues that may arise once operations begin and continue at their facilities. We will continue to provide these elite service levels as we expand our service capabilities. In addition, where this diversification of service capabilities adds existing clients from non-CEA industry sectors, we will look to continue to compete and expand in those sectors, including medical, K12, industrial, commercial, hospitality, and CPG, while remaining focused on being the leader for indoor CEA.

2. Expansion of Geographical Reach

While we will continue to establish our end-to-end solution as the industry standard for CEA indoor cultivation, we intend to continue to focus on integrating our expertise and service offerings with the best available technologies to allow our clients to achieve operational superiority and profitability. While we believe that the U.S. market will experience continued strength, and this will represent significant growth opportunities for us, we also intend to continue our expansion and reach within Europe.

European Expansion - Historically, our business has found success with clients in the United States and Canada. While North America currently presents the dominant opportunity for indoor new build and retrofit CEA facilities, the European CEA market, especially in the vertical farming sub-segment, is rapidly expanding.

Wefirst entered the European market in early 2020, through key partners who have brought us into opportunities as a value-added component to their own sales cycle. We have demonstrated the transferability of our expertise to the EU and have closed several deals to provide value-added solution services to European clients in several countries, including Switzerland, Northern Macedonia, Greece, Spain, England, and the Netherlands. Based on our due diligence, we believe that the most common facilities in demand in this market will mirror that of our niche – indoor, CEA, GMP-certified operations. We will look to capitalize on our current approach and expand our reach into Europe with our services and products through a staged and cost-efficient approach by first entering the market through our strong partnerships and leveraging our existing U.S.-based engineering expertise and overhead.

Approach to Market Expansion - Due to the rapid development of the European market and the lack of established companies experienced in the design, construction, and operations of indoor cultivation facilities, we will make a strategic and staged entry into the European market to ensure a sustainable use of resources and capital. The market entry will be designed around a three-phased approach:

- Phase One – Focus on establishing a client base and pipeline surrounding early license applicants and current license holders by providing facility and systems design for indoor projects with a focus on CSP.
- Phase Two – Building on established vendor relationships, integrate purpose-built custom environmental equipment systems from U.S. manufacturers into our European offering.
- Phase Three – Incorporate the development of the initial two phases combined with partnerships, joint ventures, expansion of service capabilities, and domestic manufacturing of equipment to provide a turn-key project solution offering in Europe.

We believe this three-phased approach, paired with the evolution of partnerships and domestic equipment manufacturing, will establish us as an experienced leader and solution provider in the design, engineering, and turn-key systems for the European indoor CEA market.

3. Expansion within the Commercial Horticulture Segment

Utilizing our in-house engineering capabilities and synergies, we confidently believe that we can efficiently expand our diversification to include working on projects in the CEA indoor vertical farming market segment in both the North American and European markets.

Global CEA Vertical Farming Segment - CEA vertical farm facilities for cultivation are typically indoor warehouse farms and plant factories that are in purpose-built or retrofitted facilities.

According to Bank of America Thematic Research, the global vertical farming market is estimated to reach $17 billion by 2025, with a compounded annual growth rate of 27.7% from 2020 to 2025. The market for non-container facilities—on which we already focus and have had success—is forecasted to grow even faster. This rate of growth forecast is buttressed by the fact that more and more food will be needed closer to where population resides, and CEA eliminates many of the risks of traditional agriculture, minimizing risk and allowing localities to be closer and control their food supply more readily.

Market Entry - Our end-to-end approach, solutions, and expertise are applicable for and valuable to clients creating high performance indoor vertical farms to cultivate high value crops such as leafy greens, micro-greens, herbs, peppers, or even floriculture. And our experience and expertise is highly transferable – while our experts' backgrounds are predominantly built on a commercial horticulture foundation, our architects' and engineers' design expertise in indoor CEA also seamlessly flows through to indoor vertical farming facilities. The acquired expertise our team has in over 500 indoor CEA projects with the highest valued crop in the world allows us to understand how to successfully design high performance CEA facilities.

Our approach to entering this market has followed what we have done as we entered Europe – we continue to reinforce our core strengths as we expand into new markets through our partnerships. The first phase of entering this CEA market is through our leading design and engineering teams. Our teams have helped in the initial phases of Cultivation Space Planning (CSP) for indoor CEA vertical farm producers as well as helped existing producers identify and solve issues in their current facilities. As we find success here, we will look to continue to partner to accelerate our reach and begin to supply much of the equipment needed to build out a facility, and finally, after identifying and solving for any potential gaps, we will look to offer turn-key, end-to-end design, engineer, and build services for indoor CEA facilities.

Acquisition Strategy - While entering any new market can be challenging, we believe that our existing brand combined with the strength of our partnerships and expertise will allow us to capture a meaningful amount of this market through targeting the most sophisticated, well-funded producers who are in need of a partner that has a demonstrated history of success growing crops in this way.

To speed up our expansion plan, and with the intention of forming strategic relationships to assist in lead generation, we plan to place investments in or acquire horticulture-related positive cash flow entities at discounted prices based upon the synergistic upside available for both organizations.

Our Competition

While we feel that our complex end-to-end solution places us as a leader in the CEA segment, we do face competition from companies that offer some, but not all, portions of an all-encompassing facility package. Further, these companies often outsource to third parties for the integration and sale of equipment systems and products, particularly within the cannabis industry. We also compete with other smaller and mid-sized companies that focus primarily on either engineering design services or product sales. Within the services space, there are several product or services specific competitors that offer similar services, such as architectural design services, MEP services or basic fertigation design. Currently, we view our competition to be focused on equipment sales that are predominantly commodity "off-the-shelf" items like lighting and other cultivation staple products, both pre- and post-startup. This competition comes from traditional wholesale horticulture dealers, online retailers, and some manufacturers who sell direct.

Greenhouse manufacturers and European systems integrators may increasingly seek to offer comprehensive product and service solutions to compete with our integrated solution, but they are primarily focused on the greenhouse industry, and not on indoor CEA facilities. European systems integrators in particular are experienced and have a strong operating history in traditional horticulture and provide specialized, intensive, and large-scale solutions that revolve around greenhouse projects. Instead of competing with these integrators, we find ourselves working with them and combining synergies to work on projects together.

Further, although we frequently partner with direct manufacturers to deliver our customized solution, these manufacturers may seek to engage with clients directly to deliver their products. In addition, we sometimes compete with electrical contractors with respect to specific components of facility engineering and design.

As the cannabis market continues to mature and develop and legalization becomes more prevalent, we expect to see more competition from cannabis-focused agricultural product and service providers. Going forward, while we will continue to serve cannabis CEA producers, we will extend our focus to non-cannabis crops. These companies may have longer operating histories, greater name recognition, larger client bases and significantly greater financial, technical, sales and marketing resources. These competitors may adopt more aggressive pricing policies and make more attractive offers to existing and potential clients, employees, strategic partners, distribution channels and advertisers. Increased competition is likely to result in price reductions, reduced gross margins and a potential loss of market share.

Regulation

U.S. Regulations

While we do not generate any revenue from the direct sale of cannabis products, we have historically, and may continue to, offer our solutions to indoor cultivators that are engaged in various aspects of the cannabis industry. Marijuana is a Schedule I controlled substance and is illegal under federal law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal laws.

A Schedule I controlled substance is defined as a substance that has no currently accepted medical use in the United States, a lack of safety for use under medical supervision and a high potential for abuse. The Department of Justice defines Schedule I controlled substances as "the most dangerous drugs of all the drug schedules with potentially severe psychological or physical dependence." If the federal government decides to enforce the Controlled Substances Act with respect to marijuana, persons that are charged with distributing, possessing with intent to distribute, or growing marijuana could be subject to fines and terms of imprisonment, the maximum being life imprisonment and a $50 million fine. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us. While we do not intend to harvest, distribute or sell cannabis, we may be irreparably harmed by a change in enforcement by the federal or state governments.

Previously, the Obama administration took the position that it was not an efficient use of resources to direct federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. The Trump administration revised this policy but made no major changes in enforcement. Specifically, Attorney General Sessions vacated the Cole Memorandum in favor of deferral of any enforcement of federal regulation to the individual states' Department of Justice or U.S. Attorney. However, certain other protections remain in place via budgetary element embedment (the Rohrabacher-Farr amendment, now referred to as the Rohrabacher-Blumenauer Amendment), which limits funding of any enforcement of anti-cannabis legislation. The Department of Justice has stated that it will continue to enforce the Controlled Substances Act with respect to marijuana to prevent:

- the distribution of marijuana to minors;
- criminal enterprises, gangs and cartels receiving revenue from the sale of marijuana;
- the diversion of marijuana from states where it is legal under state law to other states;
- state-authorized marijuana activity from being used as a cover or pretext for the trafficking of other illegal drugs or other illegal activity;
- violence and the use of firearms in the cultivation and distribution of marijuana;
- driving while impaired and the exacerbation of other adverse public health consequences associated with marijuana use;
- the growing of marijuana on public lands; and
- marijuana possession or use on federal property.

Since the use of marijuana is illegal under federal law, most federally chartered banks will not accept deposit funds from businesses involved with marijuana. Consequently, businesses involved in the marijuana industry generally bank with state-chartered banks and credit unions to provide banking to the industry.

Although cultivation and distribution of marijuana for medical use is permitted in many states, provided compliance with applicable state and local laws, rules, and regulations, marijuana is illegal under federal law. Strict enforcement of federal law regarding marijuana would likely result in a material adverse effects on our business and revenues. Though the cultivation and distribution of marijuana remains illegal under federal law, H.R. 83, enacted by Congress on December 16, 2014, provides that none of the funds made available to the DOJ pursuant to the 2015 Consolidated and Further Continuing Appropriations Act may be used to prevent states from implementing their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana. While this appropriations measure continued from 2016 through 2020, and remains in effect, continued re-authorization cannot be guaranteed. If this appropriations rider is no longer in effect, the risk of federal enforcement and override of state marijuana laws would increase. However, state laws do not supersede the prohibitions set forth in the federal drug laws.

In order to participate in either the medical or adult use sides of the marijuana industry, all businesses and employees must obtain licenses from the state and, for businesses, local jurisdictions. In addition, all owners and employees must obtain an occupational license to be permitted to own or work in a facility. All applicants for licenses undergo a background investigation, including a criminal record check for all owners and employees.

Laws and regulations affecting the medical marijuana industry are constantly changing, which could detrimentally affect our proposed operations. Local, state and federal medical marijuana laws and regulations are broad in scope and subject to evolving interpretations, which could require us to incur substantial costs associated with compliance or alter our business plan. In addition, violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our operations. It is also possible that regulations may be enacted in the future that will be directly applicable to our business. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our business.

Canadian Regulations

Summary of the Cannabis Act

On October 17, 2018, the Cannabis Act came into force as law with the effect of legalizing adult recreational use of cannabis across Canada. The Cannabis Act replaced the Access to Cannabis for Medicinal Purposes Regulations ("ACMPR") and the Industrial Hemp Regulations, both of which came into force under the Controlled Drugs and Substances Act (Canada) (the "CDSA"), which previously permitted access to cannabis for medical purposes for only those Canadians who had been authorized to use cannabis by their health care practitioner. The ACMPR replaced the Marihuana for Medical Purposes Regulations (Canada) (the "MMPR"), which was implemented in June 2013. The MMPR replaced the Marihuana Medical Access Regulations (Canada) (the "MMAR") which was implemented in 2001. The MMPR and MMAR were initial steps in the Government of Canada's legislative path towards the eventual legalization and regulating recreational and medical cannabis.

The Cannabis Act permits the recreational adult use of cannabis and regulates the production, distribution and sale of cannabis and related oil extracts in Canada, for both recreational and medical purposes. Under the Cannabis Act, Canadians who are authorized by their health care practitioner to use medical cannabis have the option of purchasing cannabis from one of the producers licensed by Health Canada and are also able to register with Health Canada to produce a limited amount of cannabis for their own medical purposes or to designate an individual who is registered with Health Canada to produce cannabis on their behalf for personal medical purposes.

Pursuant to the Cannabis Act, subject to provincial regulations, individuals over the age of 18 are able to purchase fresh cannabis, dried cannabis, cannabis oil, and cannabis plants or seeds and are able to legally possess up to 30 grams of dried cannabis, or the equivalent amount in fresh cannabis or cannabis oil. The Cannabis Act also permits households to grow a maximum of four cannabis plants. This limit applies regardless of the number of adults that reside in the household. In addition, the Cannabis Act provides provincial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements of the Cannabis Act, such as increasing the minimum age for purchase and consumption.

Provincial and territorial governments in Canada have made varying announcements on the proposed regulatory regimes for the distribution and sale of cannabis for adult-use purposes. For example, Québec, New Brunswick, Nova Scotia, Prince Edward Island, Yukon and the Northwest Territories have chosen the government-regulated model for distribution, whereas Saskatchewan and Newfoundland & Labrador have opted for a private sector approach. Alberta, Ontario, Manitoba, Nunavut and British Columbia have announced plans to pursue a hybrid approach of public and private sale and distribution.

In connection with the new framework for regulating cannabis in Canada, the federal government has introduced new penalties under the Criminal Code (Canada), including penalties for the illegal sale of cannabis, possession of cannabis over the prescribed limit, production of cannabis beyond personal cultivation limits, taking cannabis across the Canadian border, giving or selling cannabis to a youth and involving a youth to commit a cannabis-related offence.

On July 11, 2018, the Canadian federal government published regulations in the Canada Gazette to support the Cannabis Act, including the Cannabis Regulations, the new Industrial Hemp Regulations, along with proposed amendments to the Narcotic Control Regulations and certain regulations under the Food and Drugs Act (Canada). The Industrial Hemp Regulations and the Cannabis Regulations, among other things, outline the rules for the legal cultivation, processing, research, analytical testing, distribution, sale, importation and exportation of cannabis and hemp in Canada, including the various classes of licenses that can be granted, and set standards for cannabis and hemp products. The Industrial Hemp Regulations and the Cannabis Regulations include strict specifications for the plain packaging and labelling and analytical testing of all cannabis products as well as stringent physical and personnel security requirements for all federally licensed production sites. The Industrial Hemp Regulations and the Cannabis Regulations also maintain a distinct system for access to cannabis. With the Cannabis Act now in force, cannabis has ceased to be regulated under the CDSA and is instead regulated under the Cannabis Act, and both the ACMPR and the Industrial Hemp Regulations have been repealed effective October 17, 2018.

On June 7, 2018, Bill-C45 passed the third reading in the Senate with a number of amendments to the language of the Cannabis Act. More specifically, the Senate proposed:

- establishing a committee of the Senate and a committee of the House of Commons to undertake a comprehensive review of the administration and operation of the Cannabis Act;
- assisting provinces and territories to facilitate the development of workplace impairment policies;
- allowing provinces to place restrictions on the ability of individuals to engage in home cultivation;
- that law enforcement be provided with the appropriate tools and resources to address concerns about continued illicit production, diversion, and sale of cannabis to youth, including preventing the sharing of marihuana among young adults by rendering it a ticketable offense;
- that the prices set for cannabis products and the applicable taxes reflect the dual objective of minimizing the health dangers of cannabis consumption and undercutting the illicit market of cannabis;
- mandatory health warnings for cannabis products, including warnings about the danger of smoking cannabis, the danger of exposure to second-hand cannabis smoke, and the risks of combining cannabis and tobacco;
- testing procedures for THC content be standardized to ensure accurate measurement to better protect consumer health and safety;
- that forthcoming regulations for edible products and other forms of cannabis ensure that product packaging is child-resistant and does not appeal to young people, and that the type of available products should be strictly limited;
- adequate and ongoing funding for sustained, evidence-based cannabis education and prevention programs to provide Canadians, especially young Canadians, with knowledge about the health risks of cannabis use, including on-going research initiatives on the impact of cannabis use on the developing brain; and that the federal government commit to on-going educational initiatives to ensure youth are informed on the effects of cannabis use;
- to prohibit licensees under the Cannabis Act to distribute branded merchandise, such as t-shirts and baseball caps and imposing a moratorium on loosening the regulations on the branding, marketing, and promotion of cannabis for 10 years;
- to set aggressive targets, comparable to the successful Federal Tobacco Control Strategy, to reduce the number of youth and adult cannabis users; and
- to ensure that the Cannabis Tracking System be operational upon the coming-into-force of the Cannabis Act.

Security Clearances - The Cannabis Regulations require that certain people associated with cannabis licensees, including individuals occupying a "key position" directors, officers, large stockholders and individuals identified by the Minister of Health, must hold a valid security clearance issued by the Minister of Health. Officers and directors of a parent corporation must be security cleared.

Under the Cannabis Regulations, the Minister of Health may refuse to grant security clearances to individuals with associations to organized crime or with past convictions for, or an association with, drug trafficking, corruption or violent offences. Individuals who have histories of nonviolent, lower-risk criminal activity (for example, simple possession of cannabis, or small-scale cultivation of cannabis plants) are not precluded from participating in the legal cannabis industry, and the grant of security clearance to such individuals is at the discretion of the Minister of Health and such applications will be reviewed on a case-by-case basis.

Cannabis Tracking System - Under the Cannabis Act, the Minister of Health is authorized to establish and maintain a national cannabis tracking system. The Cannabis Regulations set out a national cannabis tracking system to track cannabis throughout the supply chain to help prevent diversion of cannabis into, and out of, the illicit market. The Cannabis Regulations also provides the Minister of Health with the authority to make a ministerial order that would require certain persons named in such order to report specific information about their authorized activities with cannabis, in the form and manner specified by the Minister of Health.

Cannabis Products - The Cannabis Regulations set out the requirements for the sale of cannabis products at the retail level permit the sale of dried cannabis, cannabis oil, fresh cannabis, cannabis plants, and cannabis seeds, including in such forms as "pre-rolled" and in capsules. The THC content and serving size of cannabis products is limited by the Cannabis Regulations. The sale of edibles containing cannabis and cannabis concentrates was not initially permitted, however the federal government anticipates that such products will be legalized within one year following the coming into force of the Cannabis Act.

Intellectual Property

The success of our business depends, in part, on our ability to maintain and protect our proprietary technologies, information, processes and know-how. We rely primarily on patent, trademark, copyright and trade secret laws in the U.S. and similar laws in other countries, confidentiality agreements and procedures and other contractual arrangements to protect our technology and confidential information. Our patents are limited to certain sensors that we obtain from third party manufacturers that do not contribute materially to our sales or profitability. Our trademarks are solely for branding purposes, although we no longer sell any goods or services under the Soleil brand. As of the date of this prospectus, the following summarizes the status of our registrations, pending applications, issued U.S. patents and one published U.S. patent application:

Trademarks

We have received the following trademark registrations:

Trademark	Jurisdiction	Registration Number	Registration Date	Status
URBAN-GRO	United States	4618322	October 07, 2014	Registered
URBAN-GRO	United Kingdom	3266415	January 19, 2018	Registered
URBAN-GRO	European Union	017391806	October 31, 2018	Registered
URBAN-GRO	WIPO	1548013	July 08, 2020	Registered
URBAN-GRO	United Kingdom	UK0081548013	July 08, 2020	Registered
SOLEIL	United States	5209707	May 23, 2017	Registered
SOLEIL	United Kingdom	3266410	March 09, 2018	Registered
SOLEIL	Canada	1083969	October 07, 2020	Registered
SOLEIL	European Union	017391781	September 11, 2018	Registered
SOLEIL	United Kingdom	UK00917391781	September 08, 2018	Registered
OPTI-DURA	United States	5770091	June 04, 2019	Registered
OPTI-DURA	Canada	TMA1070145	January 20, 2020	Registered
GRO-CARE	European Union	1560748	August 24, 2020	Registered
GRO-CARE	European Union	017391806	October 29, 2019	Registered
GRO-CARE	United Kingdom	UK00917391806	October 29, 2018	Registered

We have applied for and are awaiting receipt of the following trademark registrations:

Trademark	Jurisdiction	Application Number	Filing Date	Status
URBAN-GRO	Canada	1930075	November 13, 2018	Pending. Examination Completed.
URBAN-GRO	Canada (Madrid)	A0098111	July 08, 2020	Pending.
URBAN-GRO	European Union (Madrid)	A0098111	July 08, 2020	Pending. Examination Completed.
URBAN-GRO	United States	88898690	May 03, 2020	Pending.
URBAN-GRO	United States	97213742	January 11, 2022	Pending.
URBAN-GRO	United States	97213778	January 11, 2022	Pending.
GRO-CARE	United States	88898692	May 03, 2020	Pending.
GRO-CARE	WIPO	A0099548	August 24, 2020	Pending.
GRO-CARE	Canada (Madrid)	A0099548	August 24, 2020	Pending.
SOLEIL GIVES YOUR CROP A VOICE	United States	87671876	November 03, 2017	Abandoned.
SOLEIL GIVES YOUR PLANTS A VOICE	United States	87671878	November 03, 2017	Abandoned.

Patents

Title	Jurisdiction	Application Number	Filing Date	Patent Number and Issue Date	Status
Sensor bus architecture for modular sensor systems	United States	15/626,085	June 17, 2017	10,499,123 (December 3, 2019)	Issued Expire in 2037
Modular sensor architecture for soil and water analysis at various depths from the surface	United States	15/626,079	June 17, 2017	10,405,069 (September 3, 2019)	Issued Expire in 2037
Modular sensor architecture for soil and water analysis at various depths from the surface	United States	16/519,800	July 23, 2019	n/a	Published

We rely on trade secret protection and confidentiality agreements to safeguard our interests with respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce. We believe that many elements of our design and engineering processes involve proprietary know-how, technology or data that are not covered by patents or patent applications, including technical processes, test equipment designs, algorithms and procedures.

Our policy is for our employees to enter into confidentiality and proprietary information agreements with us to address intellectual property protection issues and require our employees to assign to us all of the inventions, designs and technologies they develop during the course of employment with us. However, we might not have entered into such agreements with all applicable personnel, and such agreements might not be self-executing. Moreover, such individuals could breach the terms of such agreements.

We attempt to protect our intellectual property via the deployment of non-disclosure agreements with both prospective clients and business partners as well as licensees. There are no assurances that these non-disclosure agreements will prevent a third party from infringing upon our rights.

Backlog Discussion

Our backlog as of December 31, 2021 was approximately $30 million, compared to an approximate value of $14.6 million on December 31, 2020. The current backlog consists of $25 million of equipment purchases and $5 million of services to be performed. For urban-gro, backlog is defined as signed contracts for which deposits have been received. Historically, the majority of our backlog has been retired and converted into revenue within two quarters.

Human Capital

Our employees are critical to our continued success. With approximately two-thirds of our employees considered experts, we view our employees and the depth and breadth of their experience and expertise as our competitive advantage. As such, we strive to provide an environment where urban-gro employees can have a fulfilling and productive career. We offer industry-leading employee benefits and programs to ensure the diverse needs of our employees and their families are met, including access to fantastic healthcare choices, continued growth opportunities for career development, and resources such as 401K plans and counseling to support their financial wellbeing.

Available Information

Our internet address is *www.urban-gro.com* and our investor relations website is located at *ir.urban-gro.com*. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports can be found on our investor relations website, free of charge, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into this Form 10-K. The SEC maintains a public website, www.sec.gov, which includes information about and the filings of issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. You should carefully consider the following risks and all of the other information contained in this report before deciding whether to invest in our common stock. If any of the following risks are realized, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline and you could lose all or part of your investment in our common stock. Additional risks of which we are not presently aware or that we currently believe are immaterial may also harm our business and results of operations. Some statements in this report, including such statements in the following risk factors, constitute forward-looking statements. See the section entitled “Forward-Looking Statements.”

Risks Related to Our Operations

We have a relatively limited history of operations, a history of losses, and our future earnings, if any, and cash flows may be volatile, resulting in uncertainty about our prospects generally.

We were initially organized as a limited liability company in the State of Colorado on March 20, 2014. In March 2017, we converted into a corporation with the expectation of becoming a public reporting company.

Following is a summary of our recent historical operating performance:

- During the year ended December 31, 2021, we generated revenue of $62.1 million and incurred a net loss of $0.9 million.
- During the year ended December 31, 2020, we generated revenue of $25.8 million and incurred a net loss of $5.1 million.
- During the year ended December 31, 2019, we generated revenue of $24.2 million and incurred a net loss of $8.3 million.
- During the year ended December 31, 2018, we generated revenue of $20.1 million and incurred a net loss of $3.9 million.

Our lack of a significant history and the evolving nature of the market in which we operate make it likely that there are risks inherent to our business that are yet to be recognized by us or others, or not fully appreciated, and that could result in us suffering further losses. As a result of the foregoing, and concerns regarding the economic impact from COVID-19, an investment in our securities necessarily involves uncertainty about the stability of our operating results, cash flows and, ultimately, our prospects generally.

We had negative cash flow from operations for the fiscal years ended December 31, 2021 and December 31, 2020.

We had negative cash flow from operations of ($1.6) million for the fiscal year ended December 31, 2021 and ($3.6) million for the fiscal year ended December 31, 2020. To the extent that we have negative cash flow from operations in future periods, we may need to allocate a portion of our cash reserves to fund such negative cash flow. We may also be required to raise additional funds through the issuance of equity or debt securities. There can be no assurance that we will be able to generate positive cash flow from our operations, that additional capital or other types of financing will be available when needed or that these financings will be on terms favorable to us.

Our architecture, engineering and design services have been used and may continue to be contracted for use in emerging industries that may be subject to quickly changing and inconsistent laws, regulations, practices and perceptions.

Although the demand for our architecture, engineering and design services may be negatively impacted depending on how laws, regulations, administrative practices, judicial interpretations, and consumer perceptions develop, we cannot reasonably predict the nature of such developments or the effect, if any, that such developments could have on our business. We will continue to encounter risks and uncertainty relating to our operations that may be difficult to overcome. To do so, we believe it will be important to:

- Execute our business and marketing strategy successfully;
- Increase and diversify our client base;
- Extend our reach to include the global CEA marketplace;
- Extend our reach to use current services offering in the non-CEA marketplace;
- Meet client demand with quality, timely services;
- When appropriate, partner with affiliate marketing companies to explore demand;
- Leverage initial relationships with existing clients;
- Enhance the solutions that we offer and focus on continually improving customer service levels; and
- Attract, hire, motivate and retain qualified personnel.

We may continue to incur losses in the near future, which may impact our ability to implement our business strategy and adversely affect our financial condition.

While we are focused significantly on controlling our operating expenses by managing variable expenses, employee count, and marketing activities in order to become cash flow positive, these measures may adversely affect our future operating results if we are unable to support the business effectively. In turn, this would have a negative impact on our financial condition and potentially our share price.

We also cannot make any assurances that we will be profitable or generate sufficient profits from operations in the future. If our revenues do not continue to grow or our gross margins deteriorate substantially, we are likely to continue to experience losses in future periods. Collectively, this may impact our ability to implement our business strategy and adversely affect our financial condition. This potentially would have a negative impact on our share price.

We may become subject to additional regulation of CEA facilities.

Our engineering and design services are focused on facilities that grow a wide variety of crops that are subject to regulation by the United States Food and Drug Administration and other federal, state or foreign agencies. Changes to any regulations and laws that could complicate the engineering of these CEA facilities, such as waste water treatment and electricity-related mandates, make it possible that potential related enforcement could decrease the demand for our services, and in turn negatively impact our revenues and business opportunities.

Competition in our industry is intense.

There are many competitors in the horticulture industry, and in particular the cannabis industry, including many who offer somewhat categorically similar products and services as those offered by us. There can be no guarantees that in the future other companies will not enter this arena by developing products that are in direct competition with us. We anticipate the presence as well as entry of other companies in this market space and acknowledge that we may not be able to establish, or if established to maintain, a competitive advantage. Some of these companies may have longer operating histories, greater name recognition, larger client bases and significantly greater financial, technical, sales and marketing resources. This may allow them to respond more quickly than us to market opportunities. It may also allow them to devote greater resources to the marketing, promotion and sale of their products and/or services. These competitors may also adopt more aggressive pricing policies and make more attractive offers to existing and potential clients, employees, strategic partners, distribution channels and advertisers. Increased competition is likely to result in price reductions, reduced gross margins and a potential loss of market share.

The COVID-19 pandemic could continue to materially adversely affect our business, financial condition, results of operations, cash flows and day-to-day operations.

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.

At the onset of the pandemic, it resulted in temporary delays in our projects, however, work on all such projects has resumed. Other factors related to this coronavirus that could negatively impact our ability to continue operations include the market demand for our products and services, our ability to service the needs of our clients and prospects, potential contract cancellations, project scope reductions and project delays, our ability to fulfill our current backlog, and the ability of our vendors to continue to provide us with product to fulfill our customers' orders. In light of these extenuating circumstances, there is no assurance that we will be successful in growing and maintaining our business with our clients. If our clients or prospects are unable to obtain project financing and we are unable to increase revenues, or otherwise generate cash flows from operations, we will not be able to successfully execute on the various strategies and initiatives we have set forth in this Report to grow our business.

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.

We are dependent upon third-party suppliers of products we sell.

We are dependent on outside vendors for the products we sell. For the year ended December 31, 2021, two vendors, Argus Control Systems Limited ("Argus"), a provider of automated control systems, and Fluence Bioengineering, Inc. ("Fluence"), a provider of lighting systems, were particularly important to our integrated sales solutions. We use Fluence as one of the LED lighting systems options, and Argus as one of the environmental controls and fertigation systems options in our designs and then sell them to our clients as part of our overall package. While we believe that there are sufficient sources of supply available, if the third-party suppliers, such as Argus or Fluence, were to cease production or otherwise fail to supply us with products in sufficient quantities on a timely basis and we were unable to contract on acceptable terms for these products with alternative suppliers, our ability to sell these products would be materially adversely affected. If a sole source supplier was to go out of business, we may be unable to find a replacement for such source in a timely manner or at all. If a sole source supplier were to be acquired by a competitor, that competitor may elect not to sell to us in the future. Any inability to secure required products or to do so on appropriate terms could have a materially adverse impact on the business, financial condition, results of operations or prospects of urban-gro.

As indicated above, we continue to monitor the outbreak of the COVID-19 coronavirus. Should the outbreak continue to become more widespread, it could disrupt the businesses of our industry partners and third-party suppliers, which, in turn, could impact our ability to procure equipment and raw materials from them and thereby negatively impact the business, financial condition, results of operations or our prospects.

We have historically been dependent on a small number of clients for a substantial portion of our revenue. If we fail to retain or expand our client relationships, or if a significant client were to terminate its relationship with us or reduce its purchases, our revenue could decline significantly.

During the year ended December 31, 2021, one client represented 46% of total revenue. During the year ended December 31, 2020 the same client represented 25% of total revenue and another client represented 13% of total revenue. A substantial amount of the revenue derived from each of these separate clients were equipment sales. Although we have been able to successfully generate substantial sales to different clients over time, there can be no assurances that we will be able to continue to do this in the future. Our operating results for the foreseeable future could continue to depend on substantial sales to a small number of clients. Our clients have no purchase commitments and may cancel, change or delay purchases with little or no notice or penalty. As a result of this, our revenue could fluctuate materially and could be materially and disproportionately impacted by purchasing decisions of any significant client. There can be no assurances that clients who represented a substantial portion of our historical revenue will continue to purchase products from us in the future, which could cause our revenue to decline materially and negatively impact our financial condition and results of operations. If we are unable to diversify our client base, we will continue to be susceptible to risks associated with client concentration.

Our business is dependent on our clients obtaining appropriate licenses from various licensing agencies.

Our business is dependent on our clients obtaining appropriate licenses from various licensing agencies. There can be no assurance that any or all licenses necessary for our clients to operate their businesses will be obtained, retained or renewed. If a licensing body were to determine that one of our clients had violated applicable rules and regulations, there is a risk the license granted to that client could be revoked, which could adversely affect future sales to that client and our operations. There can be no assurance that our existing clients will be able to retain their licenses going forward, or that new licenses will be granted to existing and new market entrants.

System security risks, data protection breaches, cyber-attacks and systems integration issues could disrupt our internal operations or services provided to clients.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack or otherwise exploit any security vulnerabilities of the products that we may sell in the future. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower profits, or lost clients resulting from these disruptions could adversely affect our financial results, stock price and reputation.

We may be unable to recoup the funds that were taken from us in fraudulent wire transfers or our expenses related to efforts to recover such funds.

While we have been advised by counsel that we have acted in good faith and followed appropriate policies and governance and that our bank is at fault, we may not be able to recoup the entire amount taken from us or related expenses with respect to the wire fraud described in Part I, Item 3, "Legal Proceedings." Our attempts to recoup these funds could be very costly and could distract our management from focusing on operating our business. As of the date of this report, we have successfully recouped $0.9 million of the $5.1 million lost.

We may be forced to litigate to defend our intellectual property rights, or to defend against claims by third parties against urban-gro relating to intellectual property rights.

We may be forced to litigate to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of other parties' proprietary rights. Any such litigation could be very costly and could distract our management from focusing on operating our business. The existence and/or outcome of any such litigation could harm our business.

We may not be able to successfully identify, consummate or integrate acquisitions or to successfully manage the impacts of such transactions on our operations.

Part of our business strategy includes pursuing synergistic acquisitions. We have expanded, and plan to continue to expand, our business by making strategic acquisitions and regularly seeking suitable acquisition targets to enhance our growth. Material acquisitions, dispositions and other strategic transactions involve a number of risks, including: (i) the potential disruption of our ongoing business; (ii) the distraction of management away from the ongoing oversight of our existing business activities; (iii) incurring indebtedness; (iv) the anticipated benefits and cost savings of those transactions not being realized fully, or at all, or taking longer to realize than anticipated; (v) an increase in the scope and complexity of our operations; and (vi) the loss or reduction of control over certain of our assets.

The pursuit of acquisitions may pose certain risks to us. We may not be able to identify acquisition candidates that fit our criteria for growth and profitability. Even if we are able to identify such candidates, we may not be able to acquire them on terms or financing satisfactory to us. We will incur expenses and dedicate attention and resources associated with the review of acquisition opportunities, whether or not we consummate such acquisitions.

Additionally, even if we are able to acquire suitable targets on agreeable terms, we may not be able to successfully integrate their operations with ours. Achieving the anticipated benefits of any acquisition will depend in significant part upon whether we integrate such acquired businesses in an efficient and effective manner. We may not be able to achieve the anticipated operating and cost synergies or long-term strategic benefits of our acquisitions within the anticipated timing or at all. The benefits from any acquisition will be offset by the costs incurred in integrating the businesses and operations. We may also assume liabilities in connection with acquisitions to which we would not otherwise be exposed. An inability to realize any or all of the anticipated synergies or other benefits of an acquisition as well as any delays that may be encountered in the integration process, which may delay the timing of such synergies or other benefits, could have an adverse effect on our business, results of operations and financial condition.

Risks Related to the Cannabis Industry

To date, the majority of our revenues have come from providing architecture and engineering design services and selling equipment systems into facilities prior to the facility becoming operational. The majority of our revenues to date have been generated from clients that operate in the legal cannabis industry.

We are broadening our market reach beyond the legal cannabis industry and are placing a substantial sales effort on expansion into the rapidly growing non-cannabis CEA vertical farming segment. However, on a historic basis, the majority of our clients to whom we provide facility architecture and engineering design services and sell equipment systems prior to the facility becoming operational have primarily been in the legal cannabis industry. In addition to selling directly to these clients, we also sell our equipment solutions to third parties, such as general contractors and other intermediaries, like equipment leasing companies. The majority of these solutions have been resold into the legal cannabis industry.

Now that the non-cannabis CEA segment is gaining strong momentum, and since most all of the equipment systems that we sell originate in the general horticulture industry and are agnostic to the crop grown in the facility, we believe that the proportion of non-cannabis revenues will increase. However, a decrease in demand in the legal cannabis industry could have a material adverse effect on our revenues and the success of our business.

The cannabis industry is an emerging industry and has only been legalized in some states and remains illegal in others and under U.S. federal law, making it difficult to accurately forecast the demand for our solutions in this specific industry. Losing clients from this industry may have a material adverse effect on our revenues and the success of our business.

The cannabis industry is not mature in the United States and has only been legalized in some states and remains illegal in others and under U.S. federal law, making it difficult to accurately predict and forecast the demand for our solutions. If the U.S. Department of Justice ("DOJ") did take action against the cannabis industry, those of our clients operating in the legal cannabis industry would be lost to us.

To analyze this risk, we are relying heavily upon the various U.S. federal governmental memos issued in the past (including the memorandum issued by the DOJ on October 19, 2009, known as the "Ogden Memorandum", the memorandum issued by the DOJ on August 29, 2013, known as the "Cole Memorandum" and other guidance), to remain acceptable to those state and federal entities that regulate, enforce, or choose to defer enforcement of certain current regulations regarding cannabis and that the U.S. federal government will not change its attitude to those practitioners in the cannabis industry as long as they comply with their state and local jurisdictional rules and authorities.

The legal cannabis industry is not yet well-developed, and many aspects of this industry's development and evolution cannot be accurately predicted, and therefore losing any clients may have a material adverse effect on our business. While we have attempted to identify our business risks in the legal cannabis industry, you should carefully consider that there are other risks that cannot be foreseen or are not described in this Report, which could materially and adversely affect our business and financial performance.

There is heightened scrutiny by Canadian regulatory authorities related to the cannabis industry.

Our existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators and other authorities in Canada. As a result, we may be subject to significant direct and indirect interaction with public officials. No assurance can be provided that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on our ability to operate or invest in the United States.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of the TMX Memorandum of Understanding ("MOU") with Aequitas NEO Exchange Inc., the Canadian Securities Exchange ("CSE"), the Toronto Stock Exchange, and the TSXV. The TMX MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented at a time when our securities are listed on a stock exchange, it would have a material adverse effect on the ability of holders of our securities to make and settle trades. In particular, our securities would become highly illiquid until an alternative was implemented, and investors would have no ability to effect a trade of our securities through the facilities of the CSE.

As marijuana remains illegal under United States federal law, it is possible that we may have to stop providing products and services to companies who are engaged in marijuana cultivation and other marijuana-related activities.

Marijuana is currently classified as a Schedule I controlled substance under the Controlled Substances Act and is illegal under United States federal law. It is illegal under United States federal law to grow, cultivate, sell or possess marijuana for any purpose or to assist or conspire with those who do so. Additionally, 21 U.S.C. 856 makes it illegal to "knowingly open, lease, rent, use, or maintain any place, whether permanently or temporarily, for the purpose of manufacturing, distributing, or using any controlled substance." Even in those states in which the use of marijuana has been authorized under state law, its use remains a violation of federal law. Since federal law criminalizing the use of marijuana is not preempted by state laws that legalize its use, strict enforcement of federal law regarding marijuana would likely result in the inability of our clients that are involved in the cannabis industry to proceed with their operations, which would adversely affect our operations.

Our solutions are used by cannabis growers. While we are not aware of any threatened or current federal or state law enforcement actions against any supplier of equipment that might be used for cannabis growing, law enforcement authorities, in their attempt to regulate the illegal use of marijuana, may seek to bring an action or actions against us under the Controlled Substances Act for assisting or conspiring with persons engaged in the cultivation of marijuana.

There is also a risk that our activities could be deemed to be facilitating the selling or distribution of cannabis in violation of the Controlled Substances Act. Although federal authorities have not focused their resources on such tangential or secondary violations of the Controlled Substances Act, nor have they threatened to do so, with respect to the sale of equipment that might be used by cannabis cultivators, or with respect to any supplies marketed to participants in the medical and recreational cannabis industry, if the federal government were to change its practices, or were to expend its resources investigating and prosecuting providers of equipment that could be usable by participants in the medical or recreational cannabis industry, such actions could have a materially adverse effect on our operations, our clients that operate in the cannabis industry, or the sales of our products and services.

As a company with clients operating in the cannabis industry, we face many particular and evolving risks associated with that industry, including uncertainty of United States federal enforcement and the need to renew temporary safeguards.

On January 4, 2018, former Attorney General Sessions rescinded the previously issued memoranda (known as the Cole Memorandum) from the DOJ that had de-prioritized the enforcement of federal law against marijuana users and businesses that comply with state marijuana laws, adding uncertainty to the question of how the U.S. federal government will choose to enforce federal laws regarding marijuana. Former Attorney General Sessions issued a memorandum to all United States Attorneys in which the DOJ affirmatively rescinded the previous guidance as to marijuana enforcement, calling such guidance "unnecessary." This one-page memorandum was vague in nature, stating that federal prosecutors should use established principles in setting their law enforcement priorities. Under previous administrations, the DOJ indicated that those users and suppliers of medical marijuana who complied with state laws, which required compliance with certain criteria, would not be prosecuted. As a result, it is now unclear if the DOJ will seek to enforce the Controlled Substances Act against those users and suppliers who comply with state marijuana laws.

Despite Attorney General Sessions' rescission of the Cole Memorandum, the Department of the Treasury, Financial Crimes Enforcement Network, has not rescinded the "FinCEN Memo" dated February 14, 2014, which de-prioritizes enforcement of the Bank Secrecy Act against financial institutions and marijuana related businesses which utilize them. This memorandum appears to be a standalone document and is presumptively still in effect. At any time, however, the Department of the Treasury, Financial Crimes Enforcement Network, could elect to rescind the FinCEN Memo. This would make it more difficult for our clients and potential clients to access the U.S. banking systems and conduct financial transactions, which would adversely affect our operations.

In 2014, Congress passed a spending bill ("2015 Appropriations Bill") containing a provision ("Appropriations Rider") blocking federal funds and resources allocated under the 2015 Appropriations Bill from being used to "prevent such States from implementing their own State medical marijuana law." The Appropriations Rider seemed to have prohibited the federal government from interfering with the ability of states to administer their medical marijuana laws, although it did not codify federal protections for medical marijuana patients and producers. Moreover, despite the Appropriations Rider, the Justice Department maintains that it can still prosecute violations of the federal marijuana ban and continue cases already in the courts. Additionally, the Appropriations Rider must be re-enacted every year. While it was continued in 2016, 2017, 2018, 2019, 2020 and 2021, and remains in effect, continued re-authorization of the Appropriations Rider cannot be guaranteed. If the Appropriation Rider is no longer in effect, the risk of federal enforcement and override of state marijuana laws would increase.

Further legislative development beneficial to our operations is not guaranteed.

Among other things, the business of our clients in the cannabis industry involves the cultivation, distribution, manufacture, storage, transportation and/or sale of cannabis products in compliance with applicable state law. The success of our business with respect to these clients depends on the continued development of the cannabis industry and the activity of commercial business and government regulatory agencies within the industry. The continued development of the cannabis industry is dependent upon continued legislative and regulatory authorization of cannabis at the state level and a continued laissez-faire approach by federal enforcement agencies. Any number of factors could slow or halt progress in this area. Further regulatory progress beneficial to the industry cannot be assured. While there may be ample public support for legislative action, numerous factors impact the legislative and regulatory process, including election results, scientific findings or general public events. Any one of these factors could slow or halt progressive legislation relating to cannabis and the current tolerance for the use of cannabis by consumers, which could adversely affect our operations.

The cannabis industry could face strong opposition from other industries.

We believe that established businesses in other industries may have a strong economic interest in opposing the development of the cannabis industry. Cannabis may be seen by companies in other industries as an attractive alternative to their products, including recreational marijuana as an alternative to alcohol, and medical marijuana as an alternative to various commercial pharmaceuticals. Many industries that could view the emerging cannabis industry as an economic threat are well established, with vast economic and United States federal and state lobbying resources. It is possible that companies within these industries could use their resources to attempt to slow or reverse legislation legalizing cannabis. Any inroads these companies make in halting or impeding legislative initiatives that would be beneficial to the cannabis industry could have a detrimental impact on our clients and, in turn on our operations.

The legality of marijuana could be reversed in one or more states.

The voters or legislatures of states in which marijuana has already been legalized could potentially repeal applicable laws which permit the operation of both medical and retail marijuana businesses. These actions might force us to cease operations in one or more states entirely.

Changing legislation and evolving interpretations of law, which could negatively impact our clients and, in turn, our operations.

Laws and regulations affecting the medical and adult-use marijuana industry are constantly changing, which could detrimentally affect our clients involved in that industry and, in turn, our operations. Local, state and federal marijuana laws and regulations are often broad in scope and subject to constant evolution and inconsistent interpretations, which could require our clients and ourselves to incur substantial costs associated with modification of operations to ensure compliance. In addition, violations of these laws, or allegations of such violations, could disrupt our clients' business and result in a material adverse effect on our operations. In addition, it is possible that regulations may be enacted in the future that will limit the amount of cannabis growth or related products that our commercial clients are authorized to produce. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can we determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our operations.

Regulatory scrutiny of the cannabis industry may negatively impact our ability to raise additional capital.

The business activities of certain of our clients rely on newly established and/or developing laws and regulations in multiple jurisdictions. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect our profitability or cause us to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the United States Food and Drug Administration, the SEC, the DOJ, the Financial Industry Regulatory Authority or other federal, state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry that we service may adversely affect our business and operations, including without limitation, the costs to remain compliant with applicable laws and the impairment of our ability to raise additional capital.

Banking regulations could limit access to banking services.

Since the use of marijuana is illegal under federal law, federally chartered banks will not accept deposit funds from businesses involved with marijuana. Consequently, businesses involved in the cannabis industry often have trouble finding a bank willing to accept their business. The inability to open bank accounts may make it difficult for our clients in the cannabis industry to operate and their reliance on cash can result in a heightened risk of theft, which could harm their businesses and, in turn, harm our business. Additionally, some courts have denied marijuana-related businesses bankruptcy protection, thus, making it very difficult for lenders to recoup their investments, which may limit the willingness of banks to lend to our clients and to us.

A drop in the retail price of cannabis products may negatively impact our business.

The fluctuations in economic and market conditions that impact the prices of commercially grown cannabis, such as increases in the supply of cannabis and decreases in demand for cannabis, could have a negative impact on our clients that are cannabis producers, and therefore could negatively impact our business.

Our contracts may not be legally enforceable in the United States.

Many of our historic contracts, and those we may enter into in the future, relate to services that are ancillary to the cannabis industry and other activities that are not legal under U.S. federal law and under some state laws. As a result, we may face difficulties in enforcing our contracts in U.S. federal and certain state courts.

Risks Related to Ownership of Our Common Stock

Our stock price could be extremely volatile. As a result, you may not be able to resell your shares at or above the price you paid for them.

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. Volatility in the market price of our common stock, as well as general economic, market or political conditions, may prevent you from being able to sell your shares at or above the price you paid for your shares and may otherwise negatively affect the liquidity of our common stock. You may experience a decrease, which could be substantial, in the value of your stock, including decreases unrelated to our operating performance or prospects, and you could lose part or all of your investment. The price of our common stock has been, and could continue to be, subject to wide fluctuations in response to a number of factors, including those described elsewhere in this Report and others such as:

- the effect of the COVID-19 pandemic on our business and operations;
- our ability to generate revenues sufficient to achieve profitability and positive cash flow;
- competition in our industry and our ability to compete effectively;
- our ability to attract, recruit, retain and develop key personnel and qualified employees;
- reliance on significant clients and third-party suppliers;
- our ability to successfully identify and complete acquisitions and effectively integrate those acquisitions into our operations;
- our actual or anticipated operating and financial results, including how those results vary from the expectations of management, securities analysts and investors;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other industry participants;
- developments in our business or operations or our industry sectors generally;
- any future offerings by us of our common stock;

- any coordinated trading activities or large derivative positions in our common stock, for example, a "short squeeze" (a short squeeze occurs when a number of investors take a short position in a stock and have to buy the borrowed securities to close out the position at a time that other short sellers of the same security also want to close out their positions, resulting in a surge in stock prices, i.e., demand is greater than supply for the stock sold short);
- legislative or regulatory changes affecting our industry generally or our business and operations specifically;
- the operating and stock price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions, restructurings, dispositions, financings and other material events by us or our competitors;

- actions by our current stockholders, including future sales of common shares by existing stockholders, including our directors and executive officers;
- proposed or final regulatory changes or developments;
- anticipated or pending regulatory investigations, proceedings, or litigation that may involve or affect us; and
- the other factors described under Part I, Item 1A "Risk Factors."

In response to any one or more of these events, the market price of shares of our common stock could decrease significantly. In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources and could also require us to make substantial payments to satisfy judgments or to settle litigation.

You may be diluted by future issuances of preferred stock or additional common stock in connection with our incentive plans, acquisitions or otherwise; future sales of such shares in the public market, or the expectations that such sales may occur, could lower our stock price.

Our certificate of incorporation authorizes us to issue shares of our common stock and options, rights, warrants and appreciation rights relating to our common stock for the consideration and on the terms and conditions established by our Board of Directors (the "Board") in its sole discretion. We could issue a significant number of shares of common stock in the future in connection with investments or acquisitions. Any of these issuances could dilute our existing stockholders, and such dilution could be significant. Moreover, such dilution could have a material adverse effect on the market price for the shares of our common stock.

The future issuance of shares of preferred stock with voting rights may adversely affect the voting power of the holders of shares of our common stock, either by diluting the voting power of our common stock if the preferred stock votes together with the common stock as a single class, or by giving the holders of any such preferred stock the right to block an action on which they have a separate class vote, even if the action were approved by the holders of our shares of our common stock.

The future issuance of shares of preferred stock with dividend or conversion rights, liquidation preferences or other economic terms favorable to the holders of preferred stock could adversely affect the market price for our common stock by making an investment in the common stock less attractive. For example, investors in the common stock may not wish to purchase common stock at a price above the conversion price of a series of convertible preferred stock because the holders of the preferred stock would effectively be entitled to purchase common stock at the lower conversion price, causing economic dilution to the holders of common stock.

We do not anticipate paying any cash dividends on our common stock in the foreseeable future.

We currently intend to retain our future earnings, if any, for the foreseeable future, to fund the development and growth of our business. We do not intend to pay any dividends to holders of our common stock in the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board taking into account various factors, including our business, operating results and financial condition, current and anticipated cash needs, plans for expansion, any legal or contractual limitations on our ability to pay dividends under our loan agreements or otherwise. As a result, if our Board does not declare and pay dividends, the capital appreciation in the price of our common stock, if any, will be your only source of gain on an investment in our common stock, and you may have to sell some or all of your common stock to generate cash flow from your investment.

If securities or industry analysts do not publish research or reports about our business, or if they downgrade their recommendations regarding our common stock, its trading price and volume could decline.

We expect the trading market for our common stock to be influenced by the research and reports that industry or securities analysts publish about us, our business or our industry. If no additional securities or industry analysts commence coverage of our company, the trading price for our stock may be negatively impacted. If one or more of our covering analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline and our common stock to be less liquid. Moreover, if one or more of the analysts who cover us downgrades our stock or publishes inaccurate or unfavorable research about our business, or if our results of operations do not meet their expectations, our stock price could decline.

Taking advantage of the reduced disclosure requirements applicable to "emerging growth companies" may make our common stock less attractive to investors.

We qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act. An emerging growth company may take advantage of certain reduced reporting and other requirements that are otherwise generally applicable to public companies, as described above. We currently intend to take advantage of each of these exemptions. We have elected not to opt out of such extended transition period, which means that when a standard is issued or revised and it has different application dates for public or private companies, we, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make a comparison of our financial statements with the financial statements of a public company that is not an emerging growth company, or the financial statements of an emerging growth company that has opted out of using the extended transition period, difficult or impossible because of the potential differences in accounting standards used. We could be an emerging growth company until December 31, 2023. We cannot predict if investors will find our common stock less attractive if we elect to rely on these exemptions, or if taking advantage of these exemptions would result in less active trading or more volatility in the price of our common stock.

Provisions of our certificate of incorporation and bylaws may delay or prevent a take-over that may not be in the best interests of our stockholders.

Provisions of our certificate of incorporation and bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may delay, defer or prevent a takeover attempt.

In addition, our certificate of incorporation authorizes the issuance of up to 10,000,000 shares of preferred stock with such rights and preferences determined from time to time by our Board. None of our preferred shares are currently issued or outstanding. Our Board may, without stockholder approval, issue additional preferred shares with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our common stock.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, and other applicable securities rules and regulations. Compliance with these rules and regulations involves significant legal and financial compliance costs, may make some activities more difficult, time-consuming or costly and may increase demand on our systems and resources, particularly after we are no longer an "emerging growth company," as defined in the JOBS Act. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and operating results. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may need to hire more employees in the future or engage outside consultants, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us, and our business may be adversely affected.

However, for as long as we remain an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We may take advantage of these reporting exemptions until we are no longer an "emerging growth company." We would cease to be an "emerging growth company" upon the earliest of: (i) the last day of the fiscal year following the fifth anniversary of the first sale of our common stock under an effective Securities Act registration statement, which will occur on December 31, 2023; (ii) the first fiscal year after our annual gross revenues are $1.07 billion or more; (iii) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt securities; or (iv) as of the end of any fiscal year in which the market value of the common stock held by non-affiliates exceeded $700 million as of the end of the second quarter of that fiscal year.

As a result of disclosure of information in this Report and in filings required of a public company, our business and financial condition are highly visible, which may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and operating results could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and operating results.

We may be subject to additional regulatory burdens resulting from our public listing.

We are working with our legal, accounting and financial advisors to identify those areas in which changes should be made to our financial management control systems to manage our obligations as a public company listed on Nasdaq. These areas include corporate governance, corporate controls, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal controls over financial reporting. However, we cannot assure holders of our common stock that these and other measures that we might take will be sufficient to allow us to satisfy our obligations as a public company listed on Nasdaq on a timely basis. In addition, compliance with reporting and other requirements applicable to public companies listed on Nasdaq will create additional costs for us and will require the time and attention of management. We cannot predict the amount of the additional costs that we might incur, the timing of such costs or the impact that management's attention to these matters will have on our business.

General Risks

We are highly dependent on our management team, and the loss of our executive officers or other key employees could harm our ability to implement our strategies, impair our relationships with clients and adversely affect our business, results of operations and growth prospects.

Our success depends, in large degree, on the skills of our management team and our ability to retain, recruit and motivate key officers and employees. Our active senior executive leadership team, comprised of Bradley Nattrass, James Dennedy and Richard Akright, have significant experience, and their knowledge and relationships would be difficult to replace. Leadership changes will occur from time to time, and we cannot predict whether significant resignations will occur or whether we will be able to recruit additional qualified personnel. Competition for senior executives and skilled personnel in the horticulture industry is intense, which means the cost of hiring, paying incentives and retaining skilled personnel may continue to increase.

We need to continue to attract and retain key personnel and to recruit qualified individuals to succeed existing key personnel to ensure the continued growth and successful operation of our business. In addition, as a provider of custom-tailored horticulture solutions, we must attract and retain qualified personnel to continue to grow our business, and competition for such personnel can be intense. Our ability to effectively compete for senior executives and other qualified personnel by offering competitive compensation and benefit arrangements may be restricted by cash flow and other operational restraints. The loss of the services of any senior executive or other key personnel, or the inability to recruit and retain qualified personnel in the future, could have a material adverse effect on our business, financial condition or results of operations. In addition, to attract and retain personnel with appropriate skills and knowledge to support our business, we may offer a variety of benefits, which could reduce our earnings or have a material adverse effect on our business, financial condition or results of operations.

Our insurance may not adequately cover our operating risk.

We have insurance to protect our assets, operations and employees. While we believe our insurance coverage addresses all material risks to which we are exposed and is adequate and customary in our current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which we are exposed. In addition, no assurance can be given that such insurance will be adequate to cover our liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If we were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if we were to incur such liability at a time when we are not able to obtain liability insurance, our business, results of operations and financial condition could be materially adversely affected.

We may be exposed to currency fluctuations.

Although our revenues and expenses are expected to be predominantly denominated in United States dollars, we may be exposed to currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar, the Canadian dollar, the Euro, the Swiss franc, and the currency of other regions in which we may operate may have a material adverse effect on our business, financial condition and operating results. We may, in the future, establish a program to hedge a portion of our foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if we develop a hedging program, there can be no assurance that it will effectively mitigate currency risks.

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could significantly affect our financial results.

U.S. generally accepted accounting principles ("GAAP") and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of matters that are relevant to our business, such as, but not limited to, revenue recognition, stock-based compensation, trade promotions, and income taxes are highly complex and involve many subjective assumptions, estimates and judgments by our management. Changes to these rules or their interpretation or changes in underlying assumptions, estimates or judgments by our management could significantly change our reported results.

Our ability to maintain our reputation is critical to the success of our business, and the failure to do so may materially adversely affect our business and the value of our common stock.

Our reputation is a valuable component of our business. Threats to our reputation can come from many sources, including adverse sentiment about our industry generally, unethical practices, employee misconduct, failure to deliver minimum standards of service or quality, compliance deficiencies, and questionable or fraudulent activities of our clients. Negative publicity regarding our business, employees, or clients, with or without merit, may result in the loss of clients, investors and employees, costly litigation, a decline in revenues and increased governmental regulation. If our reputation is negatively affected, by the actions of our employees or otherwise, our business and, therefore, our operating results and the value of our common stock may be materially adversely affected.

The current political climate and military actions in Eastern Europe could result in disruption to our operations, especially as it relates to our European plans.

Expansion into Europe to meet the demand for our services could be disrupted by the ongoing military actions in Eastern Europe. If we are unable to continue our expansion into Europe, or our expansion requires greater capital than we have budgeted, our operating results and the value of our common stock may be materially adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal place of business is located at 1751 Panorama Point, Unit G, Lafayette, Colorado, 80026. This location is leased and consists of approximately 10,000 square feet, including approximately 3,500 of office space and 6,500 square feet of warehouse space.**.** Additionally, we have four other office leases in the United States. We currently do not own any property.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we become involved in or are threatened with legal disputes. While most of these disputes are not likely to have a material effect on our business, financial condition, or operations, the following matters are deemed by the Company to be material either due to the costs of litigation or the potential negative impacts to the Company should these matters not be resolved in our favor:

- Crest Ventures, LLC – We have been sued in a putative breach of contract case in the District Court for Arapahoe County, Colorado. The allegations in the action are based on a claim that Crest Ventures, LLC is entitled to commission compensation on the February 2021 uplisting of our common stock to the Nasdaq Capital Market. We believe we have substantial defenses to the claim asserted in this lawsuit and intend to vigorously defend this action.
- Sunflower Bank – We have filed a lawsuit against Sunflower Bank related to fraudulent wire transfers of approximately $5,100,000 that were made from our accounts at Sunflower Bank in October 2021. As of the date of this Report, $875,950 of these funds have been returned to us. We are suing Sunflower Bank for the remaining $4,224,050 as we believe that Sunflower Bank failed to follow industry standard procedures designed to prevent such a theft and is therefore liable for the unrecovered balance. We expect Sunflower Bank, Sunflower Bank's insurers, and/or our insurer to reimburse us for the remaining balance.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

On February 17, 2021, we completed a public 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 the offering, we received approval to list our common stock on the Nasdaq Capital Market under the symbol "UGRO". Prior to the offering, shares of our common stock were quoted on the OTC Markets Group, Inc. OTCQX Marketplace under the symbol "UGRO". Although our shares were quoted on the OTCQX Marketplace from October 7, 2019 through February 11, 2021, because trading on the OTCQX Marketplace was infrequent and limited in volume, the prices at which such transactions occurred did not necessarily reflect the price that would have been paid for our common stock in a more liquid market.

The trading price of our common stock has been, and may continue to be, subject to wide price fluctuations in response to various factors, many of which are beyond our control, including those described in Part I, Item 1A, "Risk Factors."

The following table sets forth the high and low closing bid price information for our common stock on the Nasdaq Capital Market for the time periods indicated. Prior to February 12, 2021, our common stock was traded on the OTCQX Marketplace. Trading activity for our common stock on the OTCQX Marketplace can be found at www.otcmarkets.com.

Quarter Ended	Low	High
December 31, 2021	$ 8.78	$ 14.77
September 30, 2021	$ 8.51	$ 17.30
June 30, 2021	$ 6.75	$ 10.50
February 12 thru March 31, 2021	$ 6.90	$ 13.80

HOLDERS

As of March 26, 2021, we had 6,846 holders of record for our Common Stock.

DIVIDEND POLICY

Since our inception, we have not paid any dividends on our common stock, and we currently expect that, for the foreseeable future, all earnings, if any, will be retained for use in the development and operation of our business. In the future, our Board may decide, at its discretion, whether dividends may be declared and paid to holders of our common stock.

REPORTS

We are subject to certain reporting requirements and furnish annual financial reports to our stockholders, certified by our independent accountants, and furnish unaudited quarterly financial reports in our quarterly reports filed electronically with the SEC. All reports and information filed by us can be found at the SEC website, www.sec.gov.

RECENT SALES OF UNREGISTERED SECURTIES

During the years ended December 31, 2020 and 2021, we issued the following securities that were not registered under the Securities Act:

- On February 21, 2020, we entered into a letter agreement (the "Credit Agreement") by and among us, as borrower, urban-gro Canada Technologies Inc. and Impact Engineering, Inc., as guarantors, the lenders party thereto, and Bridging Finance Inc., as administrative agent for the lenders (the "Agent"). As additional consideration for the entering into the Credit Agreement, we issued 83,333 shares of our common stock and warrants to purchase 20,746 shares of common stock with an exercise price of $14.46 per share to the Agent. We relied upon the exemption from registration provided by Section 4(a)(2) of the Securities Act to issue the securities.

- On December 15, 2020, we signed a $1,854,500 convertible note (the "Notes") bridge financing (the "Bridge Financing"). The Bridge Financing is a combination of $1,354,500 received on November 20, 2020, and an additional $500,000 received on December 15, 2020. The Bridge Financing was raised by a combination of our Board of Directors, our current investors and two new institutional funds. In connection with the Bridge Financing, an outstanding $1,000,000 promissory note and $4,500 interest accrued thereon was converted into a Note. The Notes were issued in reliance upon the exemption from registration under Section 4(a)(2) of the Securities Act. The Notes carried interest at the rate of 12% and were scheduled to mature on December 31, 2021. Pursuant to the mandatory conversion provisions therein, the Notes plus accrued interest of $53,725 were converted into 254,430 shares of common stock upon completion of the public offering described in more detail below.

Completion of Registered Public Offering

On February 11, 2021, the Company entered into an underwriting agreement (the "Underwriting Agreement") with ThinkEquity, a division of Fordham Financial Management, Inc. (the "Underwriter"), relating to the Company's underwritten public offering of its common stock. Pursuant to the Underwriting Agreement, the Company agreed to sell 5,400,000 shares of Common Stock to the Underwriter at a public offering price of $10.00 per share, and granted the Underwriter a 45-day over-allotment option to purchase up to 810,000 additional shares of Common Stock, equivalent to 15% of the shares of Common Stock sold in the Offering (the "Option"), pursuant to the Company's registration statement on Form S-1 (File Nos. 333-250120 and 333-253011) (the "Registration Statement"), under the Securities Act of 1933. The offering closed on February 17, 2021, and the Company sold 6,210,000 shares of Common Stock to the Underwriter for total gross proceeds of $62.1 million, which includes 810,000 shares sold upon the full exercise of the Option. After deducting the underwriting commissions, discounts, and offering expenses, the Company received net proceeds of approximately $57.4 million. On February 17, 2021, pursuant to the Underwriting Agreement, the Company issued the Warrants to purchase up to an aggregate of 310,500 shares of Common Stock. The Warrants may be exercised beginning on August 11, 2021 until February 11, 2026. The initial exercise price of each Warrant is $12.50 per share, which represents 125% of the Offering Price. On February 19, 2021 we used $5.8 million of the net proceeds to repay outstanding under and terminated the Credit Agreement. We intend to use the remaining net proceeds to support our organic growth, to expand in the European CEA market and for other general corporate purposes, including to fund potential future investments and acquisitions of companies that we believe are complementary to our business and consistent with our growth strategy. Although we may, from time to time, evaluate potential strategic investments and acquisitions, we do not have any definitive agreements in place to make any such acquisitions at this current time. The expected use of net proceeds from the offering represents our intentions based upon our current plans and business conditions, which could change in the future as our plans and business conditions evolve and change. As a result, our management will have broad discretion over how these proceeds are used. The remaining net proceeds will be invested in short-term investments until needed for the uses described above.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our results of operations and financial condition should be read together with the financial statements and related notes and the other financial information included elsewhere in this Report. Such discussion and analysis reflects our historical results of operations and financial position. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements" and elsewhere in this Report. All share and per share amounts presented herein have been restated to reflect the implementation of the 1-for-6 reverse stock split as if it had occurred at the beginning of the earliest period presented.

Overview AND HISTORY – See "Item 1. Business" for a further description of our History and Background

We are a leading engineering and design services company focused on the sustainable commercial indoor horticulture market. We engineer and design indoor CEA facilities and then integrate complex environmental equipment systems into those facilities.

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:
  - i. Architecture
  - ii. Cultivation Space Programming ("CSP")
  - iii. Integrated Cultivation Design ("ICD")
  - iv. Full-Facility Mechanical, Electrical, and Plumbing ("MEP")
- gro-care® - A recurring revenue subscription-based managed service offering including:
  - i. Remote Monitoring, Reporting, Support, and Training Services
  - ii. Facility and Equipment Commissioning & Audit Services
  - iii. 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 approximately 100 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 provides 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 years ended December 31, 2021 compared to 2020

During the year ended December 31, 2021, we generated revenues of $62.1 million compared to revenues of $25.8 million during the year ended December 31, 2020, an increase of $36.3 million, or 140%. Equipment systems revenue increased $33.5 million primarily due to an increase in cultivation equipment sales, services revenue increased $3.1 million primarily due to the acquisition of the 2WR Entities, and consumable product sales decreased $0.3 million.

During the year ended December 31, 2021, cost of revenues was $47.4 million compared to $20.1 million during the year ended December 31, 2020, an increase of $27.2 million, or 135%. This increase is directly attributable to the increase in revenue indicated above.

Gross profit was $14.8 million (24% of revenue) during the year ended December 31, 2021, compared to $5.7 million (22% of revenue) during the year ended December 31, 2020. Gross profit as a percentage of revenues increased primarily due to an increase in higher margin services revenues.

Operating expenses increased by $6.4 million, or 77%, to $15.0 million for the year ended December 31, 2021 compared to $8.5 million for the year ended December 31, 2020. This was due to a $6.4 million increase in general operating expenses, mainly due to an increase in salary, marketing, and travel expenses, in part related to the acquisition of the 2WR Entities.

Non-operating expense was $0.7 million for the year ended December 31, 2021, compared to $2.3 million for the year ended December 31, 2020, a decrease of $1.6 million (71%). Interest expense, decreased by $1.2 million to $0.3 million compared to $1.5 million in the year ended December 31, 2020, due to the elimination of debt. For the years ended December 31, 2020, the Company recognized an impairment loss of $0.3 million related to the investment in Total Grow Control Holdings Inc. ("TGH"). The Company incurred a $0.2 million expense for contingent consideration from the acquisition of Impact Engineering, Inc. during the year ended December 31, 2020. The Company also recorded a foreign exchange loss of $0.4 million in the year ended December 31, 2020 due to the revaluation of our Canadian denominated debt.

As a result of the above, we incurred a net loss of $0.9 million for the year ended December 31, 2021, or a net loss per share of $0.09, compared to a net loss of $5.1 million for the year ended December 31, 2020, or a net loss per share of $1.06.

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, income taxes/benefit, depreciation of tangible assets, amortization of intangible assets, impairment of investments, unrealized exchange losses, debt forgiveness and extinguishment, stock-based compensation expense, acquisition costs, and other nonrecurring expenses 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:

	Years Ended December 31,	
	2021	**2020**
Net Loss	$ (875,667)	$ (5,073,695)
Interest expense	334,056	1,497,469
Interest expense - BCF	636,075	–
Depreciation and amortization	495,276	258,440
EBITDA	$ 589,740	$ (3,317,786)
Loss on extinguishment of debt	790,723	–
PPP loan forgiveness	(1,032,316)	–
Transaction related costs	238,495	–
One-time employee expense	125,000	–
Impairment loss	–	310,000
Stock-based compensation	1,840,913	1,803,403
Unusual legal costs	126,246	-
Contingent consideration – purchase price	–	155,000
Unrealized exchange loss	–	397,292

Adjusted EBITDA	$ 2,678,801	$ (652,091)

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2021, we had cash of $34.6, which represented an increase of $34.4 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 $57.4 million offset by $5.8 million of debt repayment, $7.7 million of treasury stock purchases, $5.1 million due to the fraudulent wire transfers initiated by an unauthorized third party, a cash investment of $2.5 million for XS Financial, and $5.5 million net cash payments made for the acquisition of the 2WR entities. The remaining change is due to a $3.6 million increase due to timing of deposits and prepayments to vendors during the year ended December 31, 2021.

Net cash used in operating activities was $1.6 million during the year ended December 31, 2021, compared to $3.6 million used for the year ended December 31, 2020. Operating cash has been positively impacted from an increase in client deposits as demand for our services and equipment solutions increased in the year ended December 31, 2021. At December 31, 2021, we had $13.3 million in client deposits related to client orders, which compared favorably 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. Our standard policy is to collect the following before action is taken on a client order: 50% deposit; and the remaining 50% payment made prior to shipping. We expect client deposits to be relieved from the deposits account no longer than 12 months for each project. We do not have trade payable terms with most of our vendors and as a result, we are required to prepay a portion or all of the total order. At December 31, 2021, we had $6.0 million in accounts payable, compared to $0.7 million at December 31, 2020.

Net cash used in investing activities was $8.3 million for the year ended December 31, 2021, compared to $0.2 million during the year ended December 31, 2020. Net cash used in investing activities for the year ended December 31, 2021 was primarily related to the $5.5 million incurred to acquire the 2WR entities and $2.5 million for the investment in XS Financial. 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 had no material commitments for capital expenditures as of December 31, 2021.

Net cash provided by financing activities was $44.3 million for the year ended December 31, 2021, compared to $3.5 million during the year ended December 31, 2020. Cash provided from financing activities during the year ended December 31, 2021 primarily related to $57.4 million in net proceeds received from the stock issuance related to the uplisting plus $0.4 million from the issuance of common stock, offset by $7.7 million used in the repurchase of common stock and $5.8 million related to the repayment of debt.

Gross debt, excluding operating leases, was $0.0 million and $8.4 million as of December 31, 2021 and December 31, 2020, respectively. This represents a decrease in gross debt of $8.4 million due to the payoff of all debt instruments during the year ended December 31, 2021.

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 year ended December 31, 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. See Note 2, Summary of Significant Accounting Policies, to the Notes to Consolidated Financial Statements contained in this Report for a discussion of our significant accounting policies.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

From time to time, the Financial Accounting Standards Board (“FASB”) or other standards setting bodies issue new accounting pronouncements. Updates to the FASB’s Accounting Standard Codifications (“ASCs”) are communicated through issuance of an Accounting Standards Update (“ASU”). Unless otherwise discussed, we believe 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 our financial statements upon adoption.

In June 2016, the FASB issued ASU 2016-13, “Measurement of Credit Losses on Financial Instruments” (ASU 2016-13), creating ASC Topic 326 – Financial Instruments – Credit Losses. ASU 2016-13 is intended to improve financial reporting by requiring timelier recording of credit losses on financial assets measured at amortized cost basis (including, but not limited to loans), net investments in leases recognized as lessor and off-balance sheet credit exposures. ASU 2016-13 eliminates the probable initial recognition threshold under the current incurred loss methodology for recognizing credit losses. Instead, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The Company will continue to evaluate the extent of the impact of ASU 2016-13 on the Company’s financial position, results of operations and cash flows. With the release of ASU 2019-10, the Company will monitor this impact through the effective date for fiscal years beginning after December 15, 2022.

In August 2020, the Financial Accounting Standards Board FASB issued ASU 2020-06—Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)—Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity. ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for annual and interim periods beginning after December 15, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact that this new guidance will have on its consolidated financial statements.

There are other various updates recently issued by the FASB, most of which represented technical corrections to the accounting literature or application to specific industries and are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

Management has reviewed all other recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide this information.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary financial information required by this Item are set forth immediately following the signature page and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Our management, with the participation of our CEO and 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 December 31, 2021, at reasonable assurance levels.

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

Our management, 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 fiscal year ended December 31, 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.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act. Those rules define internal control over financial reporting as a process designed 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 and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. 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.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, our management used the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

This Report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the SEC that permit us to provide only management's report in this Report.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors and officers is incorporated by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC within 120 days after the end of our fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning our directors and officers is incorporated by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC within 120 days after the end of our fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning our directors and officers is incorporated by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC within 120 days after the end of our fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information concerning our directors and officers is incorporated by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC within 120 days after the end of our fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning our directors and officers is incorporated by reference to our Definitive Proxy Statement on Schedule 14A to be filed with the SEC within 120 days after the end of our fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES.

A list of financial statements filed herewith is contained is set forth on page F-1 of the financial statements that immediately follow the signature page of this Report and is incorporated by reference herein. The financial statement schedules have been omitted because they are not required, not applicable or the information has been included in our financial statements. The exhibits required by this Item are contained in the Exhibit Index beginning on the following page of this Annual Report on Form 10-K and are incorporated herein by reference.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.3 to Form 8-K filed October 30, 2020).
3.2	Certificate of Amendment to Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 5, 2021)
3.3	Bylaws (incorporated by reference to Exhibit 3.4 to Form 8-K filed October 30, 2020).
3.4	Amendment No. 1 to Bylaws (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 12, 2021).
4.1	Description of urban-gro, Inc.'s Common Stock.
10.1	Employment Agreement by and between urban-gro, Inc. and James H. Dennedy, dated February 18, 2021
10.2	Intellectual Property Purchase and Assignment Agreement between Edyza, Inc. and Registrant (incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
10.3	Business Lease between JW Properties, LLC and Registrant dated July 22, 2015 (incorporated by reference to Form S-1Registration Statement filed on May 18, 2018)
10.4	Commercial Lease Agreement between Bravo Lighting, LLC and Registration (incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
10.5	Form of Common Stock Purchase Warrant issued to Michael Sandy Bank dated April 19, 2018 (incorporated by reference to Form S-1/A Registration Statement filed on July 11, 2018)
10.6	Redemption Agreement with Total Grow Holdings LLC dated January 24, 2020 (incorporated by referenced to Form 8-K filed on January 30, 2020)

Exhibit No.	Description

10.7*	Separation Agreement, dated as of March 20, 2020, by and between urban-gro, Inc. and Larry Dodson (incorporated by reference to Form 8-K filed on March 23, 2020)
10.8*	Form of Stock Option Agreement to be entered into on the Effective Date by and between urban-gro, Inc. and Larry Dodson (incorporated by reference to Form 8-K filed on March 23, 2020)
10.9*	urban-gro, Inc. 2019 Equity Incentive Plan (incorporated by reference to Form S-8 filed on August 27, 2019)
10.10*	Form of Deferred Shares Award Agreement (incorporated by reference to Exhibit 10.10 to Form 10-K filed on May 18, 2020).
10.11	Letter Agreement, dated February 21, 2020, by and among urban-gro, Inc., urban-gro Canada Technologies Inc., Impact Engineering, Inc., the lenders party thereto, and Bridging Finance Inc., as administrative agent for the lenders. (incorporated by reference to Exhibit 10.11 to Form 10-K filed on May 18, 2020).
10.12	Promissory Note, dated October 18, 2018, between urban-gro, Inc. and Cloud9 Support Inc. (incorporated by reference to Exhibit 10.12 to Form 10-K filed on May 18, 2020).
10.13	Amendment to Promissory Note, dated May 20, 2019, between urban-gro, Inc. and Cloud9 Support Inc. (incorporated by reference to Exhibit 10.13 to Form 10-K filed on May 18, 2020).
10.14	Subordination Agreement, dated February 25, 2020, between urban-gro, Inc. and Cloud9 Support Inc. (incorporated by reference to Exhibit 10.14 to Form 10-K filed on May 18, 2020).
10.15	Promissory Note, dated February 21, 2020, between urban-gro, Inc. and Cloud9 Support Inc. (incorporated by reference to Exhibit 10.15 to Form 10-K filed on May 18, 2020).
10.16	First Amendment to Loan Agreement, dated as of September 4, 2020, by and among urban-gro, Inc., urban-gro Canada Technologies Inc., Impact Engineering, Inc. and Bridging Finance Inc. (incorporated by reference to Exhibit 10.1 to Form 10-Q filed on November 3, 2020).
10.17	Agreement, dated as of September 18, 2020, by and between urban-gro, Inc. and George (Bob) Pullar (incorporated by reference to Exhibit 10.2 to Form 10-Q filed on November 3, 2020).
10.18*	Employment Agreement, dated as of July 1, 2020, by and between urban-gro, Inc. and Bradley Nattrass (incorporated by reference to Exhibit 10.18 to Form S-1 filed on November 16, 2020)
10.19*	Employment Agreement, dated as of July 1, 2020, by and between urban-gro, Inc. and Richard Akright (incorporated by reference to Exhibit 10.19 to Form S-1 filed on November 16, 2020)
10.20	Form of Amended and Restated Promissory Note (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 25, 2020).
10.21	Form of Amended and Restated Promissory Note (incorporated by reference to Exhibit 10.2 to Form 8-K filed on November 25, 2020).
10.22	Form of Convertible Promissory Note (incorporated by reference to Exhibit 10.3 to Form 8-K filed on November 25, 2020).

Exhibit No.	Description
10.23	Form of Convertible Promissory Note (incorporated by reference to Exhibit 10.1 to Form 8-K filed on December 18, 2020).
21.1	List of subsidiaries of the Registrant.
23.1	Consent of BF Borgers CPA P.C.
24.1	Power of Attorney (included on signature page).
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act
32	Certification of Principal Executive, Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* Denotes a management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned thereunder duly authorized.

URBAN-GRO, INC.

Dated: March 29, 2022

By: */s/ Bradley Nattrass*
Bradley Nattrass
Chairperson of the Board of Directors and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Bradley Nattrass, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto such attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that such attorney-in-fact and agent, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Bradley Nattrass Bradley Nattrass	Chairperson of the Board, Chief Executive Officer, and Director (Principal Executive Officer)	March 29, 2022
/s/ Richard A. Akright Richard A. Akright	Chief Financial Officer (Principal Financial Officer) (Principal Accounting Officer)	March 29, 2022
/s/ Lewis O. Wilks Lewis O. Wilks	Director	March 29, 2022
/s/ David Hsu David Hsu	Director	March 29, 2022
/s/ Sonia Lo Sonia Lo	Director	March 29, 2022
/s/ Anita Britt Anita Britt	Director	March 29, 2022
/s/ James H. Dennedy James H. Dennedy, Director	Director	March 29, 2022
/s/ James Lowe James Lowe	Director	March 29, 2022

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the stockholders and the board of directors of urban-gro, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of urban-gro, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of operations and comprehensive income, stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows each of the two years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BF Borgers CPA PC

We have served as the Company's auditor since 2017.

Lakewood, CO

March 29, 2022

urban-gro, Inc.
CONSOLIDATED BALANCE SHEETS

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash	$ 34,592,190	$ 184,469
Accounts receivable, net	13,125,685	976,730
Inventories	514,756	537,104
Prepaid expenses and other current assets	11,248,266	3,547,068
Total current assets	59,480,897	5,245,371
Non-current assets:		
Property and equipment, net	207,496	129,444
Operating lease right of use assets, net	689,704	88,888
Investments	4,210,358	1,710,358
Goodwill	7,992,121	902,067
Intangible assets, net	1,575,466	84,514
Total non-current assets	14,675,145	2,915,271
Total assets	$ 74,156,042	$ 8,160,642
Liabilities		
Current liabilities:		
Accounts payable	$ 6,066,896	$ 653,998
Accrued expenses	3,878,278	1,798,494
Customer Deposits	13,345,451	4,878,863
Contingent consideration	1,563,000	-
Notes payable	-	1,854,500
Revolving Facility	-	3,403,143
Term Loan, net	-	1,868,320
Operating lease liabilities	152,459	88,888
Total current liabilities	25,006,084	14,546,206
Non-current liabilities:		
Notes payable	-	1,020,600
Operating lease liabilities	542,003	-
Deferred tax liability	440,625	-
Total non-current liabilities	982,628	1,020,600
Total liabilities	25,988,712	15,566,806
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; 11,588,110 issued and 10,733,195 outstanding as of December 31, 2021, and 4,718,714 shares issued and outstanding as of December 31, 2020	11,588	4,719
Additional paid in capital	78,679,220	14,553,438
Treasury shares, cost basis: 854,915 shares as of December 31, 2021	(7,683,490)	-

Accumulated deficit	(22,839,988)	(21,964,321)
Total shareholders' equity (deficit)	48,167,330	(7,406,164)
Total liabilities and shareholders' equity (deficit)	$ 74,156,042	$ 8,160,642

See accompanying notes to unaudited condensed consolidated financial statements

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

	For the Years Ended December 31, 2021	December 31, 2020
Revenue:		
Equipment systems	$ 55,560,126	$ 22,058,696
Services	5,043,764	1,902,969
Consumable products	1,509,291	1,876,252
Total revenue	62,113,181	25,837,917
Cost of revenue	47,353,295	20,122,281
Gross profit	14,759,886	5,715,636
Operating expenses:		
General and administrative	13,123,717	6,657,903
Stock-based compensation	1,840,913	1,803,403
Total operating expenses	14,964,630	8,461,306
Income (loss) from operations	(204,744)	(2,745,670)
Non-operating income (expenses):		
Interest expense	(334,056)	(1,497,469)
Interest expense – beneficial conversion of notes payable	(636,075)	-
Loss on extinguishment of debt	(790,723)	-
Contingent consideration	-	(155,000)
Impairment of investment	-	(310,000)
Unrealized exchange loss	-	(397,292)
PPP Loan Forgiveness	1,032,316	-
Other income	57,615	31,736
Total non-operating income (expenses)	(670,923)	(2,328,025)
Income (loss) before income taxes	(875,667)	(5,073,695)
Income tax expense (benefit)	-	–
Net income (loss)	$ (875,667)	$ (5,073,695)
Comprehensive income (loss)	$ (875,667)	$ (5,073,695)
Earnings (loss) per share:		
Earnings (loss) per share – basic and diluted	$ (0.09)	$ (1.06)
Weighted-average shares used in computation of earnings per share:		
Weighted average share – basic and diluted	10,020,301	4,766,294

See accompanying notes to unaudited condensed consolidated financial statements

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

	Common Stock Shares	Amount	Additional Paid in Capital	Retained Earnings (Deficit)	Treasury Stock	Total Shareholders' Equity (Deficit)
Balance, December 31, 2019	4,701,552	$ 4,702	11,877,590	$ (16,890,626)	$ —	$ (5,008,334)
Stock-based compensation	—	—	1,803,403	—	—	1,803,403
Stock grant to satisfy accounts payable	1,606	2	9,638			9,640
	16,667	16	99,984			100,000
Stock grants issued for loan term revisions						
Stock grant program vesting	48,889	49	(49)			—
Claw back of stock granted	(183,333)	(183)	183	—	—	—
Stock issuance related to debt	83,333	83	499,917	—	—	500,000
Stock issuance related to acquisition	41,667	42	154,958	—	—	155,000
Warrant issuance related to debt	—	—	76,822	—		76,822
Stock issued for lease revisions	8,333	8	30,992	—	—	31,000
Net income (loss)	—	—	—	(5,073,695)	—	(5,073,695)

Balance, December 31, 2020	4,718,714	$ 4,719	$ 14,553,438	$ (21,964,321)	$ —	$ (7,406,164)

	Common Stock		Additional Paid in	Retained Earnings	Treasury	Total Shareholders' Equity
	Shares	Amount	Capital	(Deficit)	Stock	(Deficit)
Balance, December 31, 2020	4,718,714	$ 4,719	$ 14,553,438	$ (21,964,321)	–	$ (7,406,164)
Stock-based compensation	–	–	1,840,913	–	–	1,840,913
Beneficial Conversion Feature	–	–	636,075	–	–	636,075
Conversion of Bridge Financing	254,425	254	1,907,971	–	–	1,908,225
Common stock repurchased	–	–	–	–	(7,683,490)	(7,683,490)
Stock issuance related to offering, net of offering costs of $4,748,785	6,210,000	6,210	57,345,005	–	–	57,351,215
Stock issuance related to acquisition	202,066	202	1,999,798	–	–	2,000,000
Stock issued in conversion of warrants	22,490	22	9,974	–	–	9,996
Stock grant program vesting	118,366	119	(119)	–	–	–
Stock Options Exercised	62,049	62	386,165	–	–	386,227
Net income (loss)	–	–	–	(875,667)	–	(875,667)
Balance, December 31, 2021	11,588,110	$ 11,588	$ 78,679,220	$ (22,839,988)	(7,683,490)	$ 48,167,330

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	December 31, 2021	**December 31, 2020**
Cash Flows from Operating Activities		
Net income (loss)	$ (875,667)	$ (5,073,695)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	495,276	258,440
Amortization of deferred financing costs	103,632	557,903
Loss on extinguishment of debt	790,723	–
Interest expense amortization	53,725	–
Stock-based compensation expense	1,840,913	1,803,403
Contingent consideration expense	-	155,000
Beneficial conversion of bridge notes	636,075	-
Impairment of investment	-	310,000
Loss on disposal of assets	-	3,468
Inventory write-offs	(23,131)	91,730
Unrealized exchange losses	-	397,292
Bad debt expense	75,137	58,849
PPP loan forgiveness	(1,032,316)	–
Changes in operating assets and liabilities (net of acquired amounts):		
Accounts receivable	(10,547,883)	530,333
Inventories	45,479	47,341
Prepayments and other assets	(8,063,663)	(1,723,056)
Accounts payable and accrued expenses	6,472,004	(3,013,183)
Deposits	8,466,588	1,963,457
Net Cash Used In Operating Activities	**(1,563,108)**	**(3,632,718)**
Cash Flows from Investing Activities		
Purchases of investments	(2,500,000)	-
Purchases of property and equipment	(292,428)	(175,965)
Acquisition, net of cash acquired	(5,544,846)	-
Net Cash Used In Investing Activities	**(8,337,274)**	**(175,965)**
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	-	1,069,061
Proceeds from issuance of common stock, net of offering costs	57,747,438	–
Repurchase of common stock	(7,683,490)	–
Proceeds from PPP Loan	-	1,020,600
Proceeds from notes payables	-	1,870,600
Debt financing costs	-	(638,046)
Repayments of notes payable	-	(2,964,598)
Repayment of debt	(5,755,845)	-
Net Cash Provided by Financing Activities	**44,308,103**	3,544,449
Net Increase (Decrease) in Cash	34,407,721	(264,234)
Cash at Beginning of Period	184,469	**448,703**
Cash at End of Period	**$ 34,592,190**	**$ 184,469**
Supplemental Cash Flow Information:		
Interest Paid	$ 230,424	$ 920,891

Income Tax Paid		-		-
Supplemental disclosure of non-cash investing and financing activities:				
Debt financing costs booked in equity	$	-	$	676,822
Stock issued for acquisitions	$	2,000,000	$	155,000
PPP Loan Forgiveness	$	1,032,316	$	-
Operating lease right of use assets and liabilities extension	$	600,815	$	-

See accompanying notes to unaudited condensed consolidated financial statements

urban-gro, Inc.
Notes to Consolidated Financial Statements
For the years ended December 31, 2021 and 2020

NOTE 1 – ORGANIZATION AND ACQUISITIONS, BUSINESS PLAN, AND LIQUIDITY

Organization

urban-gro, Inc. ("our," the "Company," or "urban-gro") is a leading architectural, engineering, consulting and design services company focused on the sustainable commercial indoor horticulture market. To serve our horticulture clients, 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 also serve a broad range of commercial and governmental entities, providing them with planning, consulting, architectural and engineering design services for their facilities.

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.

Acquisitions

On June 28, 2021, the Company's wholly-owned subsidiary urban-gro Architect Holdings, LLC (the "Buyer"), and the 2WRCO Shareholders, the 2WRGA Shareholders, the MJ12 Shareholders, and the 2WRMS Shareholders (collectively, the "Sellers" and each a "Seller"), and Sam Andras, an individual (the "Sellers Representative") entered into a Stock Purchase Agreement (the "Purchase Agreement"), pursuant to which the Buyer would purchase all of the issued and outstanding capital stock of 2WR of Colorado, Inc., a Colorado corporation ("2WRCO"), 2WR of Georgia, Inc., a Georgia corporation ("2WRGA"), MJ12 Design Studio, Inc., a Colorado corporation ("MJ12") (collectively, the "Purchased Shares") from the Sellers. In connection with the acquisition of the Purchased Shares, Buyer entered into an affiliate relationship with 2WR of Mississippi, P.C., a Mississippi professional corporation ("2WRMS" and together with 2WRCO, 2WRGA and MJ12, the "2WR Entities"). The transaction closed on July 30, 2021.

The Purchased Shares had an initial purchase price of up to $7.1 million, which purchase price is subject to customary working capital adjustments (the "Purchase Price"). At closing, the Purchase Price was paid in the form of wire transfer of immediately available funds and the issuance of unregistered shares (the "Closing Payment Shares") of Parent's common stock, par value $0.001 ("Parent Common Stock"), which Closing Payment Shares had an aggregate stated value of $2.0 million. Additionally, the Purchase Agreement provides for additional earnout payments ("Earnout Payments") to the Sellers of up to an aggregate amount of $2.0 million, payable in cash or unregistered shares of Parent Common Stock in the Buyer's sole discretion. The Earnout Payments are payable quarterly for a two-year period and will be equal to twenty percent of the Target Companies' Quarterly Gross Profit (as defined in the Purchase Agreement). The value of the shares of Parent Common Stock issued in the transaction was determined based upon the daily volume weighted average closing price of the Parent Common Stock in the ten trading days prior to the issuance of such shares. The Company accounted for the acquisition of the Target Companies as follows:

Purchase Price	$	10,058,536
Allocation of Purchase Price:		
Cash	$	950,690
Accounts receivable, net	$	1,676,208
Prepayments and other assets	$	42,752
PPE, net	$	9,351
Goodwill	$	7,090,054
Intangible assets	$	1,762,500
Accrued expenses	$	1,032,394
Deferred tax liability	$	440,625

The following pro forma amounts reflect the Company's results as if the acquisition of the 2WR Entities had occurred on January 1, 2020. These pro forma amounts have been calculated after applying the Company's accounting policies and adjusting the results of the acquisition to reflect the additional amortization of intangibles.

	Year Ended December 31, 2021	Year Ended December 31, 2020
Revenue	66,802,623	32,021,812
Net income (loss)	466,738	(4,128,337)

Acquired goodwill from the 2WR Entities represents the value expected to rise from organic growth and an opportunity to expand into a well-established market for the Company.

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

Use of Estimates

In preparing 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 consolidated financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates. Significant estimates include estimated revenues earned under professional service contracts, estimated useful lives and potential impairment of long-lived assets and goodwill, inventory write offs, allowance for deferred tax assets and deferred tax liabilities, 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.

Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the former owners of the acquired entities and the equity interests issued in exchange for control of the acquired entities. Acquisition related costs are recognized in net income (loss) as incurred.

Basis of Presentation and Principles of Consolidation

These consolidated financial statements include the accounts of urban-gro, Inc. and its wholly owned subsidiaries. They 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. On July 30, 2021, we acquired 2WR of Colorado, Inc., 2WR of Georgia, Inc. and MJ12 Design Studio, Inc. (“2WR”), entities that had common ownership and management. We have accounted for the business combination by applying the acquisition method of accounting (ASC 805-10-25).

Functional and reporting currency and foreign currency translation

The functional and reporting currency of the Company and its subsidiaries is US dollars. All transactions in currencies other than US dollars are translated into US dollars on the date of the transaction. Any exchange gains and losses related to these transactions are recognized in the current period earnings as other income (expense).

Fair Value of Financial Instruments

The Company’s financial instruments consist principally of cash and cash equivalents, accounts receivable, accounts payable, notes payable and other current assets and liabilities. We value our financial assets and liabilities using fair value measurements. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Assets and liabilities measured at fair value are categorized based on whether the inputs are observable in the market and the degree that the inputs are observable. The categorization of financial instruments within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement. The hierarchy is prioritized into three levels (with Level 3 being the lowest) defined as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2: Observable inputs other than prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated with observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

The carrying amount of our cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities in our consolidated financial statements approximates fair value because of the short-term nature of the instruments. Investments in non-marketable equity securities are carried at cost less other-than-temporary impairments. The carrying amount of our notes payable and convertible debt at December 31, 2021 and 2020 approximates their fair values based on our incremental borrowing rates.

There have been no changes in Level 1, Level 2, and Level 3 categorizations and no changes in valuation techniques for these assets or liabilities for the years ended December 31, 2021 and 2020.

Cash and Cash Equivalents

The Company considers all highly liquid short-term cash investments with an original maturity of three months or less to be cash equivalents. As of December 31, 2021 and 2020, the Company did not maintain any cash equivalents. The Company maintains cash with financial institutions that may from time to time exceed federally-insured limits. The Company has not experienced any losses related to these balances and believes the risk to be minimal. There are no restricted or compensating cash balances as of December 31, 2021.

Accounts Receivable, Net

Trade Accounts Receivable

Trade accounts receivables are carried at the original invoiced amounts less an allowance for doubtful accounts. As of December 31, 2021 and 2020, the balance of allowance for doubtful accounts was $51,203 and $15,955, respectively. The allowances for doubtful accounts are calculated based on a detailed review of certain individual customer accounts and an estimation of the overall economic conditions affecting the Company’s customer base. The Company reviews a customer’s credit history before extending credit to the customer. If the financial condition of its customers were to deteriorate, resulting in an impairment of their ability to make payments, additions to the allowance would be required. A provision is made against accounts receivable to the extent they are considered unlikely to be collected. Occasionally the Company will write off bad debt directly to the bad debt expense account when the balance is determined to be uncollectable. Bad debt expense for the years ended December 31, 2021 and 2020 was $75,137 and $58,849, respectively.

Non-trade Accounts Receivable

Non-trade accounts receivables consist of payments due to the Company outside of our normal operating business. At December 31, 2021, the Company had $5,103,132 of litigation receivable from fraudulent wire transactions.

Inventories

Inventories, consisting entirely of finished goods, are stated at the lower of cost or net realizable value, with cost determined using the weighted average cost method. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. Write-downs and write-offs are charged to cost of goods sold at the realization of change in value. Once written down, inventories are carried at this lower basis until sold or scrapped.

Property, Plant, and Equipment, net

Property and equipment is stated at cost less accumulated depreciation and impairment. Expenditures for major additions and improvements are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment is retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation is provided over the estimated useful lives of the related assets using the straight-line method for financial statement purposes. The Company uses other depreciation methods (generally accelerated) for tax purposes where appropriate. No impairment charges were recorded for the years ended December 31, 2021 and 2020.

The estimated useful lives for significant property and equipment categories are as follows:

Computer and Technology Equipment	3 years
Furniture and Equipment	5 years
Leasehold Improvements	Lease term
Vehicles	3 years
Other Equipment	3 or 5 years
Software	3 years

Operating Lease Right of Use Assets

Operating lease right of use assets are stated at cost less accumulated depreciation, amortization and impairment. The Company has two operating leases with an imputed annual interest rate of 8%. The term of the first lease is 36 months commencing on September 1, 2021 and ending on August 31, 2024 while the term of the second lease is 43 months commencing on January 1, 2022 and ending on July 31, 2025.

Intangible Assets

The Company's intangible assets, consist of legal fees for application of patents and trademarks and license fees paid for inspection services, as well as customer relationships, trademarks and trade names and backlog related to the acquisition of 2WR. All intangibles are recorded at cost and once approved, are amortized using the straight-line method over an estimated life, generally 5 years for patents, 10 to 20 years for trademarks, and 1 year for backlog. License fees are amortized over10 years. Intangible assets are reported in the "Intangible Asset" line on the balance sheet.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Goodwill is not amortized but is tested for impairment annually as of December 31 and at any time when events or circumstances suggest impairment may have occurred.

The testing for impairment consists of a comparison of the fair value of the reporting unit with its carrying amount. If the carrying amount of the reporting unit, including goodwill, exceeds the fair value, an impairment will be recognized equal to the difference between the carrying value of the reporting unit's goodwill and the implied fair value of the goodwill. In testing goodwill for impairment, we determine the estimated fair value of our reporting units based upon a discounted future cash flow analysis. Goodwill is our only indefinite-lived intangible asset. Definite-lived intangible assets are amortized using the straight-line method over the shorter of their contractual term or estimated useful lives.

Impairment of Long-lived Assets

The Company evaluates potential impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment will be recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Investments

Investments without readily determinable fair values and for which the Company does not have the ability to exercise significant influence are accounted for at cost with adjustments for observable changes in prices or impairments.

Convertible Notes

The Company accounts for its convertible notes at issuance by allocating the proceeds received from a convertible note among freestanding instruments according to ASC 470, Debt, based upon their relative fair values. The fair value of debt and common stock was determined based on the closing price of the common stock on the date of the transaction, and the fair value of warrants was determined using the Black-Scholes option-pricing model. Convertible notes were subsequently carried at amortized cost. The fair value of the warrants is recorded as additional paid-in capital, with a corresponding amount recorded as a debt discount from the face amount of the convertible note. Each convertible note was analyzed for the existence of a beneficial conversion feature ("BCF"), defined as the fair value of the common stock at the commitment date for the convertible note, less the effective conversion price. BCFs were recognized at their intrinsic value, and recorded as an increase to additional paid-in capital, with a corresponding reduction in the carrying amount of the convertible note (as a debt discount from the face amount of the convertible note). The discounts on the convertible notes, consisting of amounts ascribed to warrants and beneficial conversion features, is amortized to interest expense, using the effective interest method, over the terms of the related convertible notes. BCFs that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

Revenue Recognition

The Company recognizes revenue in accordance with ASC 606, *Revenue from Contracts with Customers,* which requires that five basic steps be followed to recognize revenue: (1) a legally enforceable contract that meets criterial standards as to composition and substance is identified; (2) performance obligations relating to provision of goods or services to the customer are identified; (3) the transaction price, with consideration given to any variable, noncash, or other relevant consideration, is determined; (4) the transaction price is allocated to the performance obligations; and (5) revenue is recognized when control of goods or services is transferred to the customer with consideration given to whether that control happens over time or not. Determination of criteria (3) and (4) are based on our management's judgments regarding the fixed nature of the selling prices of the services and products delivered and the collectability of those amounts.

Our equipment systems, services and consumable product revenues arise from contracts with customers. Service revenues include full facility programming, architectural and engineering design services, start-up commissioning services, and facility optimization services. Product revenues include an integrated suite of select cultivation equipment systems and consumable crop management products. We enter into separate contracts for the service and product revenues we provide to our customers in order to clarify our obligations under the terms of the contracts. New contracts are entered into if the services to be performed or products to be delivered need to be modified. Service revenues are satisfied when services are rendered or completed in accordance with the terms of the contract. Product revenues are satisfied when control of the products is transferred to the customer.

Customer Deposits

The Company's policy is to collect deposits from customers at the beginning of the contract. The customer payments received are recorded as a customer deposit liability on the balance sheet. When the contract is complete and meets all the criteria for revenue recognition, the customer is billed for the entire contract amount and the deposit is recorded against the customer's receivable balance. In certain situations when the customer has paid the deposit and services have been performed but the customer chooses not to proceed with the contract, the Company may keep the deposit and recognize revenue. Of the outstanding customer deposit balance of $4,878,863 at December 31, 2020, $4,813,564 was recognized as revenue in the year ended December 31, 2021. The entire customer deposit balance of $2,915,406 at December 31, 2019 was recognized as revenue in the year ended December 31, 2020.

Cost of Revenue

The Company's policy is to recognize cost of revenues in the same manner as, and in conjunction with, revenue recognition. The Company's cost of revenues includes the costs directly attributable to revenue recognized and includes expenses related to the purchasing of products and providing services, fees for third-party commissions and shipping costs. Total shipping costs included in the cost of goods sold for the years ended December 31, 2021 and 2020 were $1,253,506 and $790,996, respectively.

Advertising Costs

The Company expenses advertising costs in the periods the costs are incurred. Prepayments made under contracts are included in prepaid expenses and expensed when the advertisement is run. Total advertising expense incurred for the years ended December 31, 2021 and 2020 was $263,609 and $174,131, respectively.

Warrants

The Company estimates the fair value of these warrants at the respective balance sheet dates using the Black-Scholes option pricing based on the estimated market value of the underlying common stock at the valuation measurement date, the remaining contractual term, risk-free interest rate, and expected volatility of the price of the underlying common stock. There is a moderate degree of subjectivity involved when using option pricing models to estimate the warrants and the assumptions used in the Black-Scholes option-pricing model are moderately judgmental.

Stock-Based Compensation

The Company periodically issues shares of its common stock and stock options to employees and consultants in non-capital raising transactions for fees and services. The Company accounts for stock issued to non-employees with the value of the stock compensation based upon the measurement date as determined at the grant date of the award.

The Company accounts for stock grants issued and vesting to employees with the award being measured at its fair value at the date of grant and amortized ratably over the vesting period.

Income Taxes

The Company files income federal tax returns in the United States and Canada and state and local tax returns in applicable jurisdictions. Provisions for current income tax liabilities, if any, would be calculated and accrued on income and expense amounts expected to be included in the income tax returns for the current year. Income taxes reported in earnings, if any, would also include deferred income tax provisions.

Deferred income tax assets and liabilities, if any, would be computed on differences between the financial statement bases of assets and liabilities at the enacted tax rates. Changes in deferred income tax assets and liabilities would be included as a component of income tax expense. The effect on deferred income tax assets and liabilities attributable to changes in enacted tax rates would be charged or credited to income tax expense in the period of enactment. Valuation allowances would be established for certain deferred tax assets when realization is not likely.

Assets and liabilities would be established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions, in the judgment of the Company, do not meet a more-likely-than-not threshold based on the technical merits of the positions. Valuation allowances would be established for certain deferred tax assets when realization is not likely.

Loss Per Share

The Company computes net loss per share by dividing net loss available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share would be computed by dividing net loss by the weighted-average of all potentially dilutive shares of common stock that were outstanding during the periods presented. The diluted earnings per share calculation is not presented as it results in an anti-dilutive calculation of net loss per share.

The treasury stock method would be used to calculate diluted earnings per share for potentially dilutive stock options and share purchase warrants. This method assumes that any proceeds received from the exercise of in-the-money stock options and share purchase warrants would be used to purchase common shares at the average market price for the period.

Recently Adopted 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.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This update replaces the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. This update is effective for interim and annual periods beginning after December 15, 2022, with a modified-retrospective approach. The Company is currently evaluating the impact that this new guidance will have on its consolidated financial statements.

In August 2020, the FASB issued ASU 2020-06—Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40)—Accounting For Convertible Instruments and Contracts in an Entity's Own Equity. ASU 2020-06 simplifies accounting for convertible instruments by removing major separation models required under current GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument with no separate accounting for embedded conversion features. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted net income per share calculation in certain areas. The new guidance is effective for annual and interim periods beginning after December 15, 2021, and early adoption is permitted for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact that this new guidance will have on its consolidated financial statements.

NOTE 3 – RELATED PARTY TRANSACTIONS

In October 2018, we issued a $1,000,000 unsecured note payable to Cloud9 Support Inc. ("Cloud9 Support"), 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 of12% 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 issued1,667 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 of 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 10, (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 Cloud9 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 Cloud9 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 9 – 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 will be mandatorily converted into shares of our common stock upon the closing of a qualified offering, at 75% of the per share price paid by investors in a qualified offering.

The Company has purchased goods from Cloud 9 Support. Purchases from Cloud 9 Support were $0 and $0 during the years ended 2021 and 2020, respectively. Cloud 9 Support also purchases materials from the Company for use with their customers. Total sales to Cloud 9 Support from the Company were $106,310 and $414,108 during the years ended 2021 and 2020, respectively. Outstanding receivables from Cloud 9 Support as of December 31, 2021 and 2020 totaled $6,797 and $61,678, respectively. Net outstanding payables for purchases of inventory and other services to Cloud 9 Support as of December 31, 2021 and 2020, totaled $0 and $0, respectively.

NOTE 4 – PREPAYMENTS & 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:

	2021	2020
Vendor prepayments	$ 10,652,962	$ 2,676,493
Prepaid services and fees	587,505	365,931
Deferred financing cost (See Note 10 - Debt)	–	504,644
Others	7,799	–
Prepayments and other assets	$ 11,248,266	$ 3,547,068

NOTE 5 - PROPERTY PLANT & EQUIPMENT, NET

Property Plant and Equipment balances are summarized as follows:

	2021	2020
Computers & Technology Equip	$ 106,825	$ 67,754
Furniture and Fixtures	110,006	85,662
Leasehold Improvements	164,072	164,072
Vehicles	20,000	20,000
Software	229,621	142,721
R&D Assets	–	3,031
Other Equipment	36,546	34,063
Accumulated depreciation	(459,576)	(387,859)
Property plant and equipment, net	$ 207,496	$ 129,444

Depreciation expense for the years ended December 31, 2021 and 2020 totaled $223,727 and $256,803, respectively.

NOTE 6 – INVESTMENTS

The components of investments are summarized as follows:

	2021	2020
Investment in Edyza	$ 1,710,358	$ 1,710,358
Investment in XS Financial	2,500,000	–
Investment in TGH	–	–

	$ 4,210,358	$ 1,710,358

Edyza

We have 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. During 2019, the Company acquired an additional 827,018 shares for $897,475. The Company has capitalized an additional $12,883 in legal fees associated with the purchases of the Edyza Common Stock. 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.

XS Financial

On October 30, 2021, the Company's wholly owned subsidiary UGFS, LLC, a Colorado limited liability company, participated in a convertible note offering of Xtraction Services, Inc., a/k/a XS Financial Inc. (CSE: XSF) (OTCQB: XSHLF) ("XSF"), a specialty finance company providing CAPEX financing solutions, including equipment leasing, to Controlled Environment Agriculture (CEA) companies in the United States. UGFS, LLC invested $2,500,000 of a total $43,500,000 raised by XSF. The investment is convertible into equity and incurs 9.50% interest payable in cash and PIK Notes prior to any NASDAQ listing and 8% interest post any listing, as subject to the Note Purchase Agreement. The debt matures on October 28, 2023, with a one-year option to extend the maturity date. In addition, UGFS received 1.25MM warrants with a CAD$0.45 share price as subject to the Warrant instrument.

TGH

On January 24, 2020, the Company entered into a Membership Interest Redemption Agreement (the "Redemption Agreement") with Total Grow Holdings LLC (d/b/a Total Grow Control, LLC) ("TGH"), whereby the Company agreed to sell the Company's 24.4% membership interests in TGH back to TGH for total consideration of $370,000. As a result of TGH's failure to perform its obligations under the Redemption Agreement, the Company initiated a lawsuit against TGH seeking damages (the "Lawsuit"), and subsequently fully impaired the remaining investment in TGH in June 2020.

On September 24, 2020, the Company and TGH entered into a Settlement Agreement (the "Settlement Agreement"), pursuant to which the parties agreed to settle all claims brought in the Lawsuit. Pursuant to the Settlement Agreement, TGH agreed to pay the Company a total of $61,919 in six equal installments. TGH's first payment was due by October 4, 2020. TGH also agreed to reimburse the Company for up to $25,000 of its attorney's fees related to the Lawsuit and the Settlement Agreement. In consideration of the foregoing and subject to TGH satisfying its payment obligations, the Company agreed to release any and all claims related to the Lawsuit. The Settlement Agreement also provides for a mutual release between the parties.

On September 24, 2020, in connection with the Settlement Agreement, the Company also entered into an agreement (the "Pullar Agreement") by and between the Company and George R. Pullar, a former director of the Company and the Company's former chief financial officer and the current chief financial officer of TGH. Pursuant to the Pullar Agreement, in exchange for Mr. Pullar relinquishing all right, title and interest in and to 166,667 shares of the Company's common stock, the Company agreed to (i) execute the Settlement Agreement, (ii) transfer, sell and assign to Mr. Pullar the Company's 24.4% membership interest in TGH pursuant to the Settlement Agreement and (iii) issue Mr. Pullar a fully vested warrant, to purchase 66,667 shares of Common Stock at an exercise price of $6.00 per share which expires five years from the date of issuance. The Pullar Agreement also provides for a mutual release between the Company and Mr. Pullar.

NOTE 7 – GOODWILL & INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill in conjunction with the acquisitions of the 2WR Entities on July 30, 2021 and Impact Engineering, Inc. on March 7, 2019. The goodwill balances as of December 31, 2021 and 2020 were $7,992,121 and $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 years ended December 31, 2021 and 2020.

Intangible Assets Other Than Goodwill

Finite-lived intangible assets as of December 31, 2021 and 2020 consisted of the following:

	December 31, 2021		
	Cost	**Accumulated Amortization**	**Net Book Value**
Customer relationships	834,100	49,649	784,451
Trademarks and trade names	499,000	41,583	457,417
Backlog and Other	518,405	184,807	333,598
	1,851,505	276,039	1,575,466

	December 31, 2020		
	Cost	**Accumulated Amortization**	**Net Book Value**
Other	89,004	4,490	84,514
	89,004	4,490	84,514

The estimated future amortization expense for intangible assets is subject to amortization as December 31, 2021, is summarized below:

Year ending December 31,	**Estimated Future Amortization Expense**
2022	469,193
2023	218,943
2024	218,943
2025	218,943
Thereafter	366,002
Total	1,492,024

Amortization expense for intangible assets for the years ended December 31, 2021 and 2020 was $271,549 and $1,637, respectively.

NOTE 8 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	2021	2020
Accrued operating expenses	$ 628,871	$ 717,503
Accrued wages and related expenses	1,887,124	408,907
Accrued interest expense	–	99,258
Accrued 401(k)	23,520	–
Accrued sales tax payable	1,338,763	572,826
	$ 3,878,278	$ 1,798,494

Accrued sales tax payable is comprised of amounts due to various states and Canadian provinces for 2015 through 2021.

NOTE 9 – NOTES PAYABLE

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

	December 31, 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 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 carried interest at the rate of 12% and had a maturity date of December 31, 2021. The Bridge Financing Notes were mandatorily convertible 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 were to 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 14 – 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 10 – DEBT

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

	2021	2020
Revolving Facility	$ –	$ 3,403,143
Term Loan, net of $0 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 would 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 11 – OPERATING LEASE LIABILITIES & COMMITMENTS AND CONTINGENCIES

The Company has two operating lease liabilities with an imputed annual interest rate of 8%. The term of the Lafayette office lease is 36 months commencing on September 1, 2021 and ending on August 31, 2024. The term of the Greenwood Village lease is 43 months, commencing on January 1, 2022 and ending on July 31, 2025.

The following is a summary of operating lease liabilities:

		2021		2020
Operating lease liabilities related to right of use assets.	$	694,462	$	88,888
Less current portion		(152,459)		(88,888)
Long term	$	542,003,	$	-

The following is a schedule showing total future minimum lease payments:

Year ending December 31,	Total Minimum Lease Payments
2022	262,091
2023	269,694
2024	223,297
2025	71,944
Total	827,025

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no legal proceedings for which management believes the ultimate outcome would have a material adverse effect on the Company's results of operations and cash flows.

NOTE 12 – RISKS AND UNCERTAINTIES

Concentration Risk

During the year ended December 31, 2021, one client represented 46% of total revenue. During the year ended December 31, 2020 the same client represented 25% of total revenue and another client represented 13% of total revenue. At December 31, 2021 and 2020, one client represented 41% and 23% of total outstanding accounts receivables, respectively. At December 31, 2020, a separate client represented 17% of total outstanding accounts receivables.

During the year ended December 31, 2021, one vendor represented 15% total purchases. During the year ended December 31, 2020, a one vendor represented 13% of total purchases. At December 31, 2021, one vendor represented 33% of total accounts payable. At December 31, 2020, a separate vendor represented 38% of total accounts payable.

Foreign Exchange Risk

Although our revenues and expenses are expected to be predominantly denominated in United States dollars, we may be exposed to currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar, the Canadian dollar, the Euro, the Swiss franc, and the currency of other regions in which we may operate may have a material adverse effect on our business, financial condition and operating results. We may, in the future, establish a program to hedge a portion of our foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if we develop a hedging program, there can be no assurance that it will effectively mitigate currency risks.

NOTE 13 – STOCK-BASED COMPENSATION

Stock-based compensation expense for the years ended December 31, 2021 and 2020 was $1,840,913 and $1,803,403, respectively based on the vesting schedule of the stock grants and options. During the year ended December 31, 2021, 122,629 shares vested and were issued to employees and directors. During the year ended December 31, 2020, 62,358 shares vested and were issued to employees and directors. No cash flow effects are anticipated for stock grants.

In January 2017, the Company began granting stock to attract, retain, and reward employees with Common Stock. Stock grants are offered as part of the employment offer package, to ensure continuity of employment or as a reward for performance. Each of these grants requires a specific tenure of employment before the grant vests with typical vesting periods of 1 to 3 years of employment.

In January 2018, the Company implemented an equity incentive plan to reward and attract employees and compensate vendors for services when applicable. Stock options are offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. The stock option plan authorizes 500,000 shares of common stock.

In May 2019, the Company adopted a new equity incentive plan, authorizing an aggregate of 588,333 shares of Common Stock for issuance thereunder. Stock grants under the equity incentive programs are valued at the price of the stock on the date of grant. The fair value of the options is calculated using the Black-Scholes pricing model based on the estimated market value of the underlying common stock at the valuation measurement date $6.00, the remaining contractual term of the options of 5 years, risk-free interest rate of 1.92% and expected volatility of the price of the underlying common stock of 100%. There is a moderate degree of subjectivity involved when estimating the value of stock options with the Black-Scholes option pricing model as the assumptions used are moderately judgmental. Stock grants and stock options are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. Stock grants and stock options typically require a 1 to 3 year period of continued employment or service performance before the stock grant or stock option vests.

The following schedule shows stock grant activity for the year ended December 31, 2021 and 2020:

Grants unissued as of December 31, 2019	68,750
Grants awarded	132,361
Forfeiture/Cancelled	(33,333)
Grants vested	(48,889)
Grants unissued as of December 31, 2020	118,889
Grants awarded	157,413
Forfeiture/Cancelled	-
Grants vested	(122,629)
Grants unissued as of December 31, 2021	153,673

The following table summarizes stock grant vesting periods.

Number of Shares		**Unrecognized stock compensation expense**	**Year Ending December 31,**
99,934	$	530,796	2022
53,739		117,258	2023
-		-	2024
153,673	$	648,054	

The following schedule shows stock option activity for the year ended December 31, 2021 and 2020.

	Number of Shares	**Weighted Average Remaining Life (Years)**		**Weighted Average Exercise Price**
Stock options outstanding as of December 31, 2019	283,695	9.21	$	7.26
Issued	404,167	4.00	$	6.00
Expired	(49,584)	8.02	$	6.90
Stock options outstanding at December 31, 2020	638,278	7.25	$	6.49
Stock options exercisable at December 31, 2020	363,951	7.72	$	6.48

	Number of Shares	**Weighted Average Remaining Life (Years)**		**Weighted Average Exercise Price**
Stock options outstanding as of December 31, 2020	638,278	7.25	$	6.49
Issued	76,003	4.00	$	6.00
Exercised	(4,777)	-	$	6.78
Expired	(68,167)	4.31	$	7.89
Stock options outstanding at December 31, 2021	641,337	7.55	$	6.27
Stock options exercisable at December 31, 2021	493,724	7.69	$	6.46

The following table summarizes stock option vesting periods under the two stock option plans.

Number of Shares		**Unrecognized stock compensation expense**	**Year Ending December 31,**
133,945	$	215,092	2022
13,668		27,625	2023
147,613	$	242,717	

The aggregate intrinsic value of the stock options outstanding and exercisable at December 31, 2021 is $4,021,834.

NOTE 14 – 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 504,915 shares of common stock at an average price per share of $9.35, for a total price of $4,718,633 during the twelve months ended December 31, 2021. In total, the Company has repurchased 854,915 shares of common stock at an average price per share of $8.99 for a total of $7,683,490 during the twelve months ended of December 31, 2021.

NOTE 15 – INCOME TAXES

The Company accounts for income taxes in accordance with the asset and liability method prescribed in ASC 740, "Accounting for Income Taxes". The Company has adopted the provisions of ASC 740-10-25, which provides recognition criteria and a related measurement model for uncertain tax positions taken or expected to be taken in income tax returns. ASC 740-10-25 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. Tax positions that meet the more likely than not threshold are then measured using a probability weighted approach recognizing the largest amount of tax benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company had no tax positions relating to open income tax returns that were considered to be uncertain.

The Company has experienced losses for both book and tax purposes since inception. The Company recorded no tax provisions for the year ended December 31, 2021 and 2020. The potential future recovery of any tax assets that the Company may be entitled to due to these accumulated losses is uncertain and any tax assets that that the Company may be entitled to have been fully reserved based on management's current estimates. Management intends to continue maintaining a full valuation allowance on the Company's deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.

As of December 31, 2021, the Company had approximately $10,024,417 of operating loss carryforwards for United States tax purposes, expiring as follows:

- $2,182,354 expiring in 2037
- $7,842,063 with no expiration

Realization of operating loss carryforwards to offset future operating income for tax purposes are subject to various limitations including change of ownership and current year taxable income percentage limitations.

The Company has no credit carryforwards for tax purposes.

The Company's primary filing jurisdictions are the United States and Canada. Due to the Company's net operating loss carryforwards, the Company's income tax returns remain subject to examination by federal, foreign and most state taxing authorities for all tax years.

NOTE 16 – WARRANTS

The following table shows warrant activity for the years ended December 31, 2021 and 2020.

	Number of shares		Weighted Average Exercise Price
Warrants outstanding as of December 31, 2019	115,339	$	17.28
Issued in conjunction with debt	20,747		18.00
Issued in conjunction with agreement with former executive (see Note 15 – Stockholders' Equity)	66,666	$	6.00
Warrants outstanding as of December 31, 2020	202,752	$	13.64
Warrants exercisable as of December 31, 2020	202,752	$	13.64

	Number of shares		Weighted Average Exercise Price
Warrants outstanding as of December 31, 2020	202,752	$	13.64
Exercised	(22,490)	$	14.94
Issued in conjunction with equity offering	310,500	$	12.50
Expired	(116,674)	$	18.00
Warrants outstanding as of December 31, 2021	374,088	$	11.26
Warrants exercisable as of December 31, 2021	374,088	$	11.26

The fair value of the options is calculated using the Black-Scholes pricing model based on the estimated market value of the underlying common stock at the valuation measurement date $10.00, the remaining contractual term of the options of 5 years, risk-free interest rate of .57% and expected volatility of the price of the underlying common stock of 100%. There is a moderate degree of subjectivity involved when estimating the value of warrants with the Black-Scholes option pricing model as the assumptions used are moderately judgmental.

The weighted-average life of the warrants is 3.07 years. The aggregate intrinsic value of the warrants outstanding and exercisable at December 31, 2021 is $0.

NOTE 17 – SUBSEQUENT EVENTS

On March 13, 2022, urban-gro, Inc., (the "Company"), Emerald Merger Sub, Inc. ("Merger Sub"), Emerald Construction Management, Inc. ("Emerald"), Christopher W. Cullens, Charles W. Cullens, and Green Stone Property LLC ("Green Stone" and, collectively with Christopher W. Cullens and Charles W. Cullens, the "Sellers"), and, solely in his capacity as the Seller Representative, Christopher W. Cullens (the "Seller Representative") entered into an Acquisition Agreement and Plan of Merger (the "Acquisition Agreement"), pursuant to which Emerald will merge with and into Merger Sub and the Company will purchase all of Sellers' membership interest in CTS Strategies, LLC (the "CTS Interest").

Pursuant to the Acquisition Agreement, the initial purchase price for Emerald (the "Initial Purchase Price") shall be up to $5.0 million, consisting of $2.5 million in unregistered shares (the "Closing Payment Shares") of the Company's common stock, par value $0.001 ("Company Common Stock") and up to $2.5 million of cash, and the purchase price for the CTS Interest will be $1,000. The Initial Purchase Price is subject to certain adjustments, including a working capital adjustment. At closing, the Initial Purchase Price will be paid in the form of wire transfer of immediately available funds and the issuance of the Closing Payment Shares. Additionally, the Acquisition Agreement provides for additional earnout payments ("Earnout Payments") to the Sellers of up to an aggregate amount of $2.0 million, payable in unregistered shares of Company Common Stock. The Earnout Payments are payable quarterly for a two year period and will be equal to 35% of the Quarterly Gross Profit (as defined in the Acquisition Agreement). The value of the shares of Company Common Stock to be issued in the transaction will be determined based upon the daily volume weighted average closing price of the Company Common Stock in the ten trading days prior to the issuance of such shares.

EXHIBIT 4.1

DESCRIPTION OF THE URBAN-GRO, INC. SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following descriptions are summaries of the material terms of our certificate of incorporation and bylaws. Reference is made to the more detailed provisions of, and the descriptions are qualified in their entirety by reference to, the certificate of incorporation and bylaws, forms of which are filed with the SEC as exhibits to this Report, and applicable law.

General

Our authorized capital stock consists of 100,000,000 shares of common stock, par value $0.001 per share, and 10,000,000 shares of preferred stock, $0.10 par value per share. The outstanding shares of our common stock are fully paid and nonassessable. No shares of preferred stock are currently outstanding.

Common Stock

Holders of common stock will have voting rights for the election of our directors and all other matters requiring stockholder action, except with respect to amendments to our certificate of incorporation that alter or change the powers, preferences, rights or other terms of any outstanding preferred stock if the holders of such affected series of preferred stock are entitled to vote on such an amendment. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors. Holders of common stock will be entitled to one vote per share on matters to be voted on by stockholders and also will be entitled to receive such dividends, if any, as may be declared from time to time by our Board in its discretion out of funds legally available therefor. The payment of dividends, if any, on the common stock will be subject to the prior payment of dividends on any outstanding preferred stock, of which there is currently none. Upon our liquidation or dissolution, the holders of common stock will be entitled to receive *pro rata* all assets remaining available for distribution to stockholders after payment of all liabilities and provision for the liquidation of any shares of preferred stock outstanding at that time. Our stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

Preferred Stock

Our certificate of incorporation provides that shares of preferred stock may be issued from time to time in one or more series. Our Board will be authorized to fix the voting rights, if any, designations, powers, preferences, the relative, participating, optional or other special rights, if any, and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. Our Board will be able to, without stockholder approval, issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the common stock and could have anti-takeover effects. The ability of our Board to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management. Although we do not currently intend to issue any shares of preferred stock, we cannot assure you that we will not do so in the future.

Certain Anti-takeover Provisions of Delaware Law, our Certificate of Incorporation and Bylaws

Section 203 of the Delaware General Corporation Law

As a Delaware corporation, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally has an anti-takeover effect for transactions not approved in advance by our Board. This may discourage takeover attempts that might result in payment of a premium over the market price for the shares of common stock held by stockholders. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a three-year period following the time that such stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation's voting stock. Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; or

- upon consummation of the transaction which resulted in the stockholder becoming an interested outstanding, shares owned by:

  - persons who are directors and also officers, and

  - employee stock plans, in some instances; or

  - at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Special meeting of stockholders

Our bylaws further provide that special meetings of our stockholders may be only called by our Board with a majority vote of our Board, by our chief executive officer or our chairman.

Requirements for Advance Notification of Director Nominations and Stockholder Proposals

Our bylaws provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, must provide timely notice of their intent in writing. To be timely, a stockholder's notice needs to be delivered to the secretary at our principal executive offices not later than the close of business on the 45th day nor earlier than the close of business on the 75th day prior to the first anniversary of the date on which we first mailed its proxy materials for the preceding year's annual meeting of stockholders; provided, however, if no proxy materials were mailed by us in connection with the preceding year's annual meeting, or if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, a stockholder's notice shall be timely if delivered to our principal executive offices not later than the 90th day prior to the scheduled date of the annual meeting of stockholders or the 10th day following the day on which public announcement of the date of our annual meeting of stockholders is first made or sent by us. Our bylaws also specify certain requirements as to the form and content of a stockholders' meeting. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.

Authorized but unissued shares

Our authorized but unissued shares of common stock and preferred stock are available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Removal of directors

Our certificate of incorporation provides that a member of our Board may be removed from service as a director, with or without cause, only by the affirmative vote of the holders of a majority of the shares of voting stock then outstanding and entitled to vote in an election of directors.

Limitation of Liability and Indemnification of Directors and Officers

Our certificate of incorporation and bylaws provide that our directors and officers will be indemnified by us to the fullest extent authorized by Delaware law as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with their service for or on our behalf. In addition, our certificate of incorporation provides that our directors will not be personally liable for monetary damages to us for breaches of their fiduciary duty as directors, except for liability (i) for any appropriation by a director, in violation of his or her duties, of any business opportunity of the Corporation, (ii) for acts or omissions which involve intentional misconduct or a knowing violation of the law, (iii) with respect to illegal dividends or redemptions, or (iv) for any transaction from which the director received an improper personal benefit. Our bylaws also permit us to secure insurance on behalf of any officer, director or employee for any liability arising out of his or her actions, regardless of whether Delaware law would permit indemnification.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, insurance and the indemnity agreements are necessary to attract and retain talented and experienced directors and officers.

There is no pending litigation or proceeding involving any of our directors or officers where indemnification by us would be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Listing

Our common stock is listed on the Nasdaq Capital Market under the symbol "UGRO."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is Equiniti Trust Company (f/k/a Corporate Stock Transfer), 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209, phone (303) 282-4800.

EXHIBIT 21.1

LIST OF SUBSIDIARIES

urban-gro Canada Technologies, Inc, a Canadian corporation

Impact Engineering, Inc., a Colorado corporation, d/b/a Grow2Guys

2WR of Colorado, Inc., a Colorado corporation

2WR of Georgia, Inc., a Georgia corporation

MJ12 Design Studio, Inc., a Colorado corporation

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-233472 and 333-256658) of our report dated March XX, 2022, relating to the consolidated financial statements of urban-gro, Inc. and its subsidiaries as of December 31, 2021 and 2020, and for each of the two years in the period ended December 31, 2021 and to all references to our firm included in this Annual Report filed with the U.S. Securities and Exchange Commission on March XX, 2022.

/S/ B F Borgers CPA PC

Lakewood, Colorado
March 29, 2022

Exhibit 31.1

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Bradley Nattrass, certify that:

1. I have reviewed this annual report on Form 10-K 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 in order 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 controls 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 procedure 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 upon 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 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: March 29, 2022

/s/ Bradley Nattrass
Bradley Nattrass, Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES OXLEY ACT OF 2002

I, Richard A. Akright, certify that:

1. I have reviewed this annual report on Form 10-K 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 in order 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 controls 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 procedure 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 upon 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 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: March 29, 2022

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

Exhibit 32

CERTIFICATION PURSUANT TO
18 USC, SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this annual report of urban-gro Inc. (the “Company”) on Form 10-K for the fiscal year ended December 31, 2021, as filed with the Securities and Exchange Commission on March XX, 2022 (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 Rule 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.

Dated: March 29, 2022	*/s/ Bradley Nattrass*
	Bradley Nattrass, Chief Executive Officer
Dated: March 29, 2022	*/s/ Richard A. Akright*
	Richard A. Akright, Chief Financial Officer