Table of Contents

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, 2019**

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

Commission File Number: **000-52898**

URBAN-GRO, INC.
(Exact name of registrant as specified in its charter)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: **Common Stock.**

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

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. (Check one)

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 28, 2019 was $13,327,898.

As of May 8, 2020, the registrant had 28,709,312 shares of Common Stock issued and outstanding.

TABLE OF CONTENTS

EXPLANATORY NOTE

As previously reported by urban-gro, Inc. (the "Company") in its Current Report on Form 8-K as filed with the Securities and Exchange Commission ("SEC") on March 30, 2020, in accordance with the SEC's Order under Section 36 of the Securities Exchange Act of 1934 Granting Exemptions From Specified Provisions of the Exchange Act and Certain Rules Thereunder dated March 4, 2020 (Release No. 34-88318) (as modified on March 25, 2020 by Release No. 34-88465, the "Order"), the Company disclosed that it was relying on the relief provided by the Order in connection with the filing of this Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "Report") due to the circumstances related to the coronavirus disease 2019 ("COVID-19"). In particular, COVID-19 caused disruptions in the Company's day-to-day operations resulting in limited access to the Company's facilities and limited support from its staff and professional advisors, in turn, delayed the Company's ability to complete its audit and prepare the Report.

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.

BUSINESS OVERVIEW

urban-gro, Inc. ("we," "us," our," the "Company," or "urban-gro") is a leading engineering design services company that integrates complex environmental equipment systems to create high-performance indoor cultivation facilities for the global commercial horticulture market. Our custom-tailored, plant-centric approach to design, procurement, and integration provides a single point of accountability across all aspects of indoor growing operations. We also help our customers achieve operational efficiency and economic advantages through a full spectrum of professional services focused on facility optimization, and integrated pest management programs that promote environmental health.

THE URBAN-GRO SOLUTION

We offer customers a solution to help engineer, design, and operate high-performance indoor cultivation facilities. Our systemic approach to growing superior crops with a focus on maximizing plant yields and lowering overall operational costs helps customers achieve their objectives for quality and profitability. Our solution offers functionality that helps customers manage the entire cultivation lifecycle, from facility engineering and design to operation and day-to-day management. We offer a full range of custom services integrated with select cultivation equipment and product solutions, which we primarily source from third party technology and manufacturing partners but also develop in-house.

Our service offerings include full facility programming, engineering, and design services, start-up facility and equipment commissioning services, facility optimization services, and integrated pest management ("IPM") planning and strategy services. Complementing these services, we work with customers to source an integrated suite of select cultivation equipment systems and crop management products, which include: (1) environmental controls, fertigation, and irrigation distribution systems; (2) freshwater, wastewater, and condensation treatment systems; (3) purpose-built HVAC solutions, (4) light-emitting diode ("LED"), high-pressure sodium ("HPS") and ceramic metal halide ("CMH") lighting systems; (5) rolltop, multi-tier, and automated container benching systems; (6) odor mitigation & microbial reduction systems; (7) airflow systems; (8) industrial spray applicators; (9) pesticides and bio-controls; (10) plant nutrition products; (11) substrate and coco bag solutions; and (12) our Soleil® technology data analytics platform that includes wireless environmental & substrate sensing and remote monitoring and support.

OUR STRATEGY FOR GROWTH

Our strategy is to continue to establish our end-to-end solution as the industry standard for commercial indoor cultivation. We intend to continue to focus on integrating our expertise and service offerings with the best available technologies to achieve operational superiority and profitability. 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. In addition to further developing our focus on general horticulture, we believe we will see continued growth opportunities as the cannabis industry evolves and matures on a global basis.

We may also seek additional growth opportunities through strategic acquisitions and investments. For instance, we acquired Impact Engineering, Inc., a provider of mechanical, electrical, and plumbing ("MEP") engineering services in March 2019. Impact Engineering, operating under the name Grow2Guys, has provided design and engineering services on 300+ projects, representing over 3,500,000 square feet, including cultivation and extraction facilities, dispensaries, and MIP kitchens. We also 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. We intend to continue to pursue synergistic investments, acquisitions, and joint venture opportunities to the extent they may support our growth objectives. When analyzing these opportunities, we intend to focus on those that will help us secure exclusive rights to sell products, services, or technologies to support the global cannabis industry better. However, our efforts to grow by strategic acquisitions are subject to, among other things, the availability of capital, as well as legal and regulatory restrictions relating to the cannabis and horticulture industry.

OUR PRODUCTS AND SERVICES:

Our indoor commercial cultivation solution offers an integrated suite of services, equipment systems, and products that generally fall within the following categories: engineering design services, integration of complex environmental equipment systems, integration of cultivation equipment systems and post start-up product and service solutions.

- *Engineering design services*. Our engineering design services include cultivation space programming, integrated cultivation design and full-facility MEP engineering.
- *Integration of complex environmental equipment systems.* This includes the integration of environmental controls, fertigation and irrigation distribution, a complete line of water treatment and reclamation systems, purpose-built HVAC systems, and odor mitigation & microbial reduction systems.
- *Integration of cultivation equipment systems.* This includes the integration of commercial grade light systems including LED, HPS and CMH, rolling and automated bench systems and fans.
- *Post start-up product and service solutions.* Our post start-up solutions are primarily offered through our Environmental Sciences Group ("ESG"), which focuses on designing preventative IPM plans, sourcing IPM products such as fertilizers, nutrients, pesticides, and biologicals. We also offer a full line of professional consulting services focusing on post start-up facility optimization, and the implementation of our Soleil® technology data analytics platform

We currently have two proprietary brands, our Soleil® technology offering and our OPTI-DURA® cultivation equipment and product offering.

Soleil®

Soleil® is a recurring revenue focused solution that we offer primarily to the cannabis operators through a partnership with Edyza. Edyza's platform comprises a cloud-based services back-end management and administration system, and an intuitive customer interface. Edyza's platform employs a robust, high performance, proprietary, tree-mesh wireless network topology. The user interface is designed for intuitive ease-of-use navigation of the customer's systems, and as a universal user interface that will integrate typically all disparate systems within the grow environment.

Soleil® utilizes wireless hardware sensors to acquire data within the grow environment. Sensed data is transmitted over the wireless network and to cloud services. Data undergoes processing for reporting analysis and data visualizations important to the grower for actions and corrections to the grow environment equilibrium and balance. The current Soleil® sensor product family includes sensing for temperature, humidity, carbon dioxide, organic compounds, barometric pressure, soil moisture, conductance (nutrients), and grow light output intensity. The combination of sensing with the environmental factors that are measured are essential components to achieve the careful balance of a grow environment.

As water resources become scarce and transportation, energy, and labor costs rise, controlled environment agriculture is quickly gaining interest and investment. The ability to precisely monitor environmental and plant conditions in a regulated, indoor environment helps optimize crop yield and quality. With just a few clicks, cultivators are able to assess temperature, moisture content, nutrient content, and pH—among other factors—in order to maintain ideal growing conditions. While existing substrate (soil) sensing technology is very costly to implement and is subject to scalability, wire, efficiency, and reliability constraints, the demand for a wireless solution that provides real-time data is on the rise. Soleil® offers a complete solution that can help increase operational efficiency, efficient use of hardware and network systems, and reduction of waste – all leading to improvements in profitability.

In addition to environmental and soil sensing, the same platform is being leveraged to economically monitor mission critical mechanical systems using vibration, energy consumption, and temperature. The sensors will alert cultivators to potential equipment failures like broken fans, clogged emitters, or inefficient HVAC systems.

The Soleil® business model is a subscription-based, data services product. We believe the subscription sales contracts will help increase adoption in the industry due to lower capital costs for acceptance and implementation by customers. We have partnered with Edyza on a weighted profit share basis where we are responsible for sales and marketing and Edyza provides all manufacturing, business and product development, software build out and continual improvement. Hardware and network services remain the property of Edyza, who also manages data hosting, data analysis, reporting and visualizations. Standard and customized data visualizations are provided and available, and types and details are dependent on the subscribed level of service. Standard reporting consists of graphs and charts, and custom visualizations also include Augmented Reality and Mixed Reality data representations.

Opti-Dura® Cultivation Product & Equipment Offering

Supplementing our best-in-class complex equipment systems that we procure from top manufacturers in the horticulture industry, we have created a high-quality, value-driven "house brand" of cultivation products and equipment, which we sell under our OPTI-DURA® brand. Our sourcing of cultivation products and equipment has been researched and developed by cultivators that know first-hand the quality and specifications desired by cultivators.

Today, our OPTI-DURA® product line consists of OPTI-DURA® large-scale pesticide applicators that wepurchase from a U.S.-based company and sell under our brand. Our commercial applicators are made in America and built by farmers. They are particularly useful for commercial cultivation facilities utilizing high pressure and special spray nozzles that help "twists" the liquid under the leaves where pests often hide. We are an exclusive distributor of the heaviest duty sprayers on the market.

OUR PRIMARY VENDOR RELATIONSHIPS

We work closely with leading technology and manufacturing providers to deliver an integrated solution designed to achieve the stated objectives of our customers. Although we have numerous provider relationships, two vendors are particularly important to our solution: Argus Controls ("Argus") and Fluence Bioengineering ("Fluence"):

- Argus provides automated control systems for the horticulture and aquaculture industries. Argus systems provide three essential functions: (i) fully integrated equipment control; (ii) advanced monitoring and alarms; and (iii) comprehensive crop and environmental data acquisition and management information. Argus capabilities include facilities automation and specialty monitoring and control applications to support the needs of cultivators. Argus' systems are used in horticulture and biotechnology research facilities, universities, aquaculture and aquaponics, and many other custom control applications at sites throughout the world.
    - On December 11, 2019, we renewed our multi-year strategic agreement with Argus to provide cannabis cultivators in North America with industry-leading, plant-centric solutions for environmental control, automation, and nutrient management.
    - We have worked with Argus on over 50 projects and the extended agreement demonstrates both companies' commitment to client success through early and ongoing collaboration with cannabis cultivators throughout their project lifecycles.
- Fluence's LED-based lighting systems are designed to provide high levels of photosynthetically active radiation ideal for commercial cultivation and research applications from microgreens to cannabis. From sole-source indoor grow lighting to supplemental greenhouse lighting, Fluence custom tailors the light spectrum and form-factors to optimize plant growth and increase yields while consuming less energy and reducing operating costs versus legacy technologies. Sales of Fluence's LED lighting systems accounted for 25% of our consolidated revenue for the year ended December 31, 2019.

We have not experienced any material changes in the availability of equipment and products from Argus, Fluence or any other vendor or supplier.

OUR CUSTOMERS

We primarily market and sell our products and services to operators of commercial indoor cultivation facilities in the United States and Canada. To date, our primary customer base has been comprised of indoor commercial cultivators seeking to grow high-quality cannabis crops. One customer represented 21% of our total revenue for the year ended December 31, 2019. Since launching the engineering and design division in 2018, we have designed and assisted in the build-out of 200+ projects for some of the largest independent and multi-state operators in both the United States and Canada. With Grow2Guys' 300+ projects, our engineering and design teams have combined experience of over 500+ projects.

Although the rapidly expanding cannabis market has been our target market and substantially all of our revenues to date have been generated from customers in the cannabis industry, we are seeking to diversify our customer base by expanding into other segments of the indoor horticultural market, including targeting cultivators of high value crops such as tomatoes, strawberries, chilies, peppers, and leafy greens. During 2019, we also began exploring the potential demand for our solutions in select countries, including those within Latin America and Europe.

SALES AND MARKETING

Sales Strategy

Our sales team is comprised of one Executive Vice President, one Director of Enterprise Solutions, three Directors of Sales, and one Sales Associate. The Directors of Sales, serving as "relationship ambassadors," are located across the United States and are tasked with finding, building and supporting sales and customer relationships.

With the experience garnered from providing engineering and design services to 500+ projects, and our continued research on finding best in class complex equipment solutions, our customers choose to work with us because our solution is custom tailored to address the combination of process flow, efficient industry best equipment solutions, complex environment systems, and the sensitivities of the plant.

When potential customers express an interest in our solution, we provide them with a technical expert, or Sales Engineer, who can quickly and effectively explain a proposed solution to resolve the customers' specific challenges. We believe this technical sales process requires true segment expertise, which we also believe has not been readily available to indoor cultivators, particularly those in the cannabis industry. As a systems integrator, we employ a team of segment-specific educated and technical experts with deep experience in each of the five solution segments, including:

- Environmental Controls, Fertigation, Irrigation Distribution;
- Water Treatment;
- Integrated Pest Management;
- Lighting Systems; and
- Mechanical Systems (HVAC).

Our team includes talented and experienced individuals including individuals with Masters Degrees in Business Administration, Plant Science, Horticulture, and post-secondary degrees in Environmental Science, Horticulture, Agricultural Engineering, and Electrical/Mechanical/Controls Engineering. We leverage these technical experts in their areas of expertise to continually find and vet what we believe are the best-in-class solutions, and then educate and inform our customers on best solution use and techniques.

In addition to leads generated from the execution of our marketing strategy, for additional new business opportunities, we focus on referrals generated from our relationships with industry partners and from contract referral agents. By offering a referral program to consultants whose primary business model is to help their customers set up cultivation facilities from the design stage through cultivation, we ensure access to a strong network of cultivators.

Contractual Sales Cycle

We generate revenue and profits based on the value we provide for design, engineering, and complex systems expertise. At the outset of a customer project, we utilize a proprietary project estimation tool that accounts for multiple variables relating to the size and complexity of the new or retrofitted facility. This tool optimizes the facility layout taking into consideration the costs of systems, materials, people and utilities, as well as the movement of people and plants, to provide a facility that meets the business goals of the customer. After the project estimate is determined, a design fee and project deposit are determined. The design fee is dependent on the desired design services and on project complexity, including facility and canopy size, type and complexity of controls system, number of irrigation zones, types of nutrients, and the number of individual plants that require individual irrigation. We provide our solution pursuant to a contract that typically requires a project design deposit equal to 50% of the project estimate, with the remaining balance being due prior to delivery of the construction documents, which collectively takes, on average, a period of up to six months.

Following the design stage, we contract with customers to provide customized equipment systems. To begin the procurement process, we charge an equipment system deposit ranging from 20% to 50% of total cost, which varies based on lead time, complexity, and the type of systems. After the procurement window, which ranges from one week to five months to allow for the manufacturing and assembly of systems, we charge a final shipment payment for the balance owed, which is due within two weeks of system readiness and prior to shipment. Following installation of the system, we dispatch an engineering team to commission the system.

To date, the cost to our customers for our systems has ranged between $75,000 and $4,000,000, depending on the size of cultivation, the complexity of systems, types, and the number of systems utilized from our product portfolio. We do not provide direct financing to our customers.

Marketing Strategy

We provide customers with services and solutions *for the life of their grow* — from early stage facility programming, engineering design, and the integration of complex equipment systems, through commissioning / facility start-up, and followed by an operational consulting services offering. Our team of scientists and experts understands the highly regulated market, challenges, and opportunities unique to cultivators. The following outlines the various stages of cultivation operation and defines the ways in which we serve the needs of cultivators and their stakeholders.

Early-Stage Engagement ->Planning and Building Consensus -> Custom Design and Integration of Complex Systems & Equipment -> Commissioning -> Operational Consulting Services

- **Early-Stage Engagement ->Planning and Building Consensus:**
  - **Cultivation Space Programming:**
    - Early-stage engagement with stakeholders provides for an optimized interaction between people, plants and process which saves stakeholders money and time through smart, informed decision-making.
  - **Integrated Cultivation Design:**
    - Professionally designed layouts for climate control, fertigation, benches, fans, and lighting ensure optimal space utilization and product performance.
  - **MEP Engineering:**
    - Our MEP engineering focuses on the full building, not just the cultivation space. This eliminates the “gap” between cultivation and the building systems. We provide HVAC engineering and design; plumbing engineering and design; electrical engineering and design; and securing documentation for the building permits necessary to obtain certificates of occupancy.
- **Custom Design and Integration of Complex Systems & Equipment:**
  - **Integration of Complex Environmental Equipment Systems:**
    - Custom designed and sale of vetted and purpose-built controls and fertigation systems, water treatment, and mechanical systems.
  - **Integration of Cultivation Equipment Systems:**
    - Sale of vetted and best-in-class rolling and automated container benching systems, HAF/VAF fans, lighting solutions and microbial mitigation and odor reduction systems.

- **Commissioning:**

    - 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 customer's engineers and stakeholders to avoid project bottlenecks and support construction trades. Our commissioning team ensures that the equipment is installed according to the design and operates as committed.

- **Operational Consulting Services**

    - After a facility is operational, we offer a full range of consulting services focused on facility optimization. Our technical experts are available to travel on-site and offer facility audit reports as well as detailed standard operating procedures and product recommendations to better optimize the facility.

Environmental Sciences Group ("ESG")

In addition to our design and integrated systems offering, our ESG helps drive a recurring revenue stream. The ESG team provides strategic and tactical consulting for cultivators to create IPM programs that minimize crop loss resulting from pest outbreaks. Our plant scientists are experts in IPM and, for customers in the cannabis industry, have an unparalleled understanding of the complex cannabis cultivation laws that vary by state, county, and city.

Through our IPM subscription service, we work with cultivators to provide cutting-edge pesticide and biocontrol regimens that adhere to a customer's regulatory environment. Our procurement team leverages our national buying power to ensure the best product value. These are consumables that commercial cultivators purchase on a regular basis. They include pesticides, nutrients and fertilizers and are paid for prior to shipping or on terms for existing customers. The ESG has also begun integrating the Soleil® technology platform into IPM planning, in turn providing the customer with real-time data to make informed decisions to optimize crop environments, preventing crop loss through actionable alerts and programmed responses to conditions.

COMPETITION

While we feel that no other competitor offers a comparable complex end-to-end solution, we do face competition from a few companies that offer some varying selections of engineering design services. 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 MEP services or basic fertigation design. Our product offering faces competition from several competitors who offer similar products to those offered by us, including many who have greater financial resources than we currently have available. 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 wholesale traditional 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 indoor cultivation 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. Further, although we frequently partner with direct manufacturers to deliver our customized solution, these manufacturers may seek to engage with customers 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. These companies may have longer operating histories, greater name recognition, larger customer 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 customers, 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 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 1 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.

As of the date of this report, 33 states and the District of Columbia allow their citizens to use medical marijuana. The District of Columbia and 11 states – Alaska, California, Colorado, Illinois, Maine, Massachusetts, Michigan, Nevada, Oregon, Vermont and Washington – have adopted the most expansive laws legalizing marijuana for adult use. Most recently, Michigan voters approved a ballot measure permitting adults age 21 and over to purchase and possess adult use marijuana. Vermont became the first state earlier this year to legalize marijuana for adult use through the legislative process, rather than via a ballot measure. Vermont's law allows for adults age 21 and over to grow and possess small amounts of cannabis. However, it does not permit the sale of nonmedical cannabis. Some other state laws similarly decriminalized marijuana, but did not initially legalize retail sales. These state laws are in conflict with the federal Controlled Substances Act, which makes marijuana use and possession illegal on a national level. If the federal government decides to enforce the Controlled Substances Act with respect to marijuana, it will cause significant financial damage to us.

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 has revised this policy. Specifically, the Attorney General vacated the Cole Memorandum in favor of deferral of any enforcement of federal regulation to the individual states Department of Justice/US Attorney. However, certain other protections remain in place via budgetary element embedment (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 Substance 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 often have trouble finding a bank willing to accept their business. The inability to open bank accounts may make it difficult for our customers to operate. There have been recent movement to allow state-chartered banks and credit unions to provide banking to the industry, but as of December 31, 2019, there were only nominal entities that have been formed that offer these services.

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 the inability to proceed with our business plan and could expose us and our management to potential criminal liability and subject their properties to civil forfeiture. 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. However, state laws do not supersede the prohibitions set forth in the federal drug laws.

For a comprehensive and up to date perspective on this process and current states and territories cannabis laws please refer to the following link:http://www.mpp.org/states/key-marijuana-policy-reform.html.

In order to participate in either the medical or adult use sides of the marijuana industry in Colorado and elsewhere, all businesses and employees must obtain licenses from the state and, for businesses, local jurisdictions. Colorado issues four types of business licenses including cultivation, manufacturing, dispensing, and testing. 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.

Colorado has also enacted stringent regulations governing the facilities and operations of marijuana businesses. All facilities are required to be licensed by the state and local authorities and are subject to comprehensive security and surveillance requirements. In addition, each facility is subject to extensive regulations that govern its businesses practices, which includes mandatory seed-to-sale tracking and reporting, health and sanitary standards, packaging and labeling requirements, and product testing for potency and contaminants.

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. These ever-changing regulations could even affect federal tax policies that may make it difficult to claim tax deductions on our returns. 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 its 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 be 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 shareholders 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.

EMPLOYEES

As of the date of this Report, we employ 37 persons, of which 34 are full-time, one is part-time, and two are currently on furlough. None of our employees are covered by collective bargaining agreements. We also utilize the services of one independent contractor who is focused on increasing operational efficiencies within the business, three electrical engineers, and a revolving number of referral agents. We require all our employees and consultants to sign a confidentiality and non-disclosure agreement. We believe that our future success will depend, in part, on our ability to hire and retain qualified personnel.

TRADEMARKS AND PATENTS

Our success depends upon our technology and intellectual property rights. We seek to protect such rights and the value of our corporate brands and reputation through a variety of measures, including: patents, domain name registrations, confidentiality and intellectual property assignment agreements with employees and third parties, protective contractual provisions, and laws regarding copyrights, trademarks, and trade secrets. We hold multiple registered trademarks in the United States and in various foreign countries, and we may apply for additional trademarks as business needs require. We also have rights to certain patents pursuant to our agreements with Edyza.

Certain protections normally available to us related to design or other utility patents in the cannabis industry may not currently be enforceable under federal law.

HISTORY

We were 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 ("Common Stock") for every member interest issued and outstanding on the date of conversion. In June 2018, we formed urban-gro Canada Technologies, Inc. as a wholly owned Canadian subsidiary, which we utilize for all our Canadian sales operations. Effective March 7, 2019, we acquired 100% of the stock of Impact Engineering, Inc., d/b/a Grow2Guys, a provider of MEP engineering services.

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.

In addition to all the other information set out in this Report, the following specific factors could materially adversely affect us and should be considered when deciding whether to make an investment in us and our Common Stock. Other risks and uncertainties that we do not presently consider to be material, or of which we are not presently aware, may become important factors that affect our future financial condition and results of operations. The occurrence of any of the risks discussed below could materially adversely affect our business, prospects, financial condition, results of operations or cash flow.

Risks Related to Our Operations

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 recent 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. Most recently, 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 has caused a significant economic slowdown it appears increasingly likely that it could cause a global recession, which could be of an unknown duration and could have had an adverse effect on our liquidity and profitability.

As a result of these events, we assessed our near-term operations, working capital, finances and capital formation opportunities, and implemented, in late March 2020, a downsizing of our operations and workforce to preserve cash resources and focus our operations on customer-centric sales and project management activities. The duration and likelihood of success of this workforce reduction are uncertain. If this downsizing effort does not meet our expectations, or additional capital is not available, we may not be able to continue our operations. Other factors that will affect our ability to continue operations include the market demand for our products and services, our ability to service the needs of our customers and prospects with a reduced workforce, potential contract cancellations, project scope reductions and project delays, our ability to fulfill our current backlog, management of our working capital, the availability of cash to fund our operations, and the continuation of normal payment terms and conditions for purchase of our products. In light of these extenuating circumstances, there is no assurance that we will be successful in growing and maintaining our business with our customers. If our customers 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 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 ability to service and repay our debt when it comes due and uncertainty about our prospects generally. There is substantial doubt about our ability to continue as a going concern.

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, trading company. During the year ended December 31, 2019, we generated revenues of $24.2 million and incurred a net loss of $8.3 million. During the year ended December 31, 2018, we generated revenues of $20.1 million and incurred a net loss of $3.9 million. During the year ended December 31, 2017, we generated revenue of $12.3 million, and incurred a net loss of $2.6 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 ability to service and repay our debt and our prospects generally.

In August 2019, due to liquidity constraints, we commenced certain targeted cost reduction initiatives to focus on our company's core services and reduce our operating costs and general and administrative expenses, including reducing employee headcount, marketing expenditures and corporate functions and activities, as well as eliminating outsourced product development.

Notwithstanding these measures, there remain risks and uncertainties regarding our ability to generate sufficient revenues to pay our debt obligations and accounts payable when due. These risks and uncertainties raise substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements in connection with this Report are issued. The consolidated financial statements included in this Report have been prepared on a going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might result from the outcome of this uncertainty. The Company's ability to continue as a going concern is dependent upon, among other things, its ability to generate revenue, control costs and, if necessary, raise capital on acceptable terms.

Substantially all of our revenues to date have been generated from customers in the cannabis industry, which 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 predict and forecast the demand for our solution.

Although we are looking to expand into other segments of the horticulture market, including the rapidly growing vertical farming segment, substantially all of our revenues to date have been generated from customers in the cannabis industry. The cannabis industry is immature in the Unites 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 solution. Because of our limited operating history and the recent development of the cannabis industry in general, it is difficult to evaluate our business and future prospects. 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 customer base;
- Meet customer demand with quality, timely services;
- When appropriate, partner with affiliate marketing companies to explore demand;
- Leverage relationships with existing customers;
- Enhance the solutions that we offer and provide wider distribution; and
- Attract, hire, motivate and retain qualified personnel.

Due to our current dependence on the cannabis market, 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 Cole Memorandum and other guidance), as well as recent assurances issued by the Trump administration, 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 cannabis industry is not yet well-developed, and many aspects of this industry's development and evolution cannot be accurately predicted. While we have attempted to identify many risks specific to the 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. We expect that the cannabis market and our business evolve in ways that are difficult to predict. For example, it is anticipated that over time, we will reach a point in most markets where we have achieved a market penetration level in which new customer acquisitions are less productive, and the continued growth of our revenue will require more focus on increasing the rate at which existing customers purchase products and services across our platforms. Our long-term success will depend on our ability to successfully adjust its strategy to meet the changing market dynamics. If we are unable to successfully adapt to changes in the cannabis industry our operations could be adversely affected.

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

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

We also cannot assure you that we will be profitable or generate sufficient profits from operations in the future. If our revenues do not grow or our product category gross margins begin to decline, we may experience a loss in one or more future periods. Collectively, this may impact our ability to implement our business strategy and adversely affect our financial condition. This would also have a negative impact on our share price.

We are attempting to build a business without the support of financial institutions and traditionally available banking support.

Even though we are not actively engaged in the production of cannabis, the federal prohibitions on the cannabis industry in the United States inhibit our ability to establish traditional banking support and opportunities. Specifically, banks are currently unwilling to provide us with any financing normally available to growth stage companies similar to ourselves, including purchase order financing. As a result, we have been forced to finance our expansion by raising capital privately, as well as through private debt and operating capital. This has placed a significant constraint on our cash flow. While current legislation brought before the U.S. Congress may be enacted in the future to alleviate this problem, there are no assurances this will occur. Our failure to obtain additional debt or equity financing in the future could have a negative impact on our ability to continue to grow and expand our operations, which will have a negative impact on our anticipated results of operations.

We may become subject to additional regulation of farm and grow products.

We do not believe that our targeted products are subject to regulation by the United States Food and Drug Administration or any similar state agency in the United States. However, changes in the industry, including growth or additional regulation makes it possible that such regulations may be put into place and that such regulations could impact sales or otherwise 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 won't 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 but 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 customer 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 customers, 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.

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 cannabis producers that we service, and therefore could negatively impact our business.

Our principal shareholders have the ability to significantly influence or control matters requiring a shareholder vote and other shareholders may not have the ability to influence corporate transactions.

Currently, our principal shareholders own in excess of a majority of our outstanding Common Stock. As a result, they have the ability to determine the outcome on all matters requiring approval of our shareholders, including the election of directors and approval of significant corporate transactions.

Our management does not have significant financial reporting experience on the OTCQX, or significant experience in managing a public company.

Only our Chief Financial Officer ("CFO") has public company management experience. This may make it difficult for us to establish and maintain effective internal controls over financial reporting, which may lead to delays in filing reports required by the rules and regulations of the SEC and the suspension of quotation of our securities on the OTCQX, which will make it more difficult for you to sell your securities. The OTCQX and other national stock exchanges limit quotations to securities of issuers that are current in their reports filed with the SEC. Our failure to file such reports with the SEC in a timely manner could also result in a delisting.

We are highly dependent on our management team, and the loss of our senior executive officers or other key employees could harm our ability to implement our strategies, impair our relationships with customers 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, including Brian Zimmerman, Jonathan Nassar, Mark Doherty, and particularly Bradley Nattrass and Dick 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.

We could be liable for fraudulent or illegal activity by our employees, contractors and consultants resulting in significant financial losses as a result of claims against urban-gro.

We are exposed to the risk that our employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to urban-gro that violate government regulations. It is not always possible for us to identify and deter misconduct by our employees and other third parties, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against urban-gro, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on our business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of urban-gro's operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our insurance may not adequately cover our operating risk.

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its 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 the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

We are dependent upon third party suppliers of our raw materials.

We are dependent on outside vendors for our supplies of raw materials. For the year ended December 31, 2019, two vendors, Argus and Fluence, were particularly important to our solution. Sales of Fluence's LED lighting systems accounted for 25% of our consolidated revenue for the year ended December 31, 2019. 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 quality raw materials in sufficient quantities on a timely basis and we were unable to contract on acceptable terms for these services with alternative suppliers, our ability to produce our 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 supplies and services 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 depend on significant customers for a substantial portion of our revenue. If we fail to retain or expand our customer relationships or if this significant customer were to terminate its relationship with us or reduce its purchases, our revenue could decline significantly.

One customer represented 21% of our total revenue for the year ended December 31, 2019. We had one customer that accounted for 14% of our total revenue for 2018. We believe that our operating results for the foreseeable future will continue to depend on sales to a small number of customers. These customers have no purchase commitments and may cancel, change or delay purchases with little or no notice or penalty. As a result of this customer concentration, our revenue could fluctuate materially and could be materially and disproportionately impacted by purchasing decisions of these customers or any other significant customer. In the future, these customers may decide to purchase less product from us than they have in the past, may alter purchasing patterns at any time with limited notice, or may decide not to continue to purchase our products at all, any of which could cause our revenue to decline materially and materially harm our financial condition and results of operations. If we are unable to diversify our customer base, we will continue to be susceptible to risks associated with customer concentration.

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

Because many of our contracts 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, we may face difficulties in enforcing our contracts in U.S. federal and certain state courts.

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

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 customers resulting from these disruptions could adversely affect our financial results, stock price and reputation.

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

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, sports sponsorship agreements 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 customers. Negative publicity regarding our business, employees, or customers, with or without merit, may result in the loss of customers, 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.

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 additional 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.

Our indebtedness could adversely affect our financial condition and prevent us from fulfilling our debt service and other obligations.

Our indebtedness could have significant effects on our business. For example, it could:

- make it more difficult for us to satisfy our financial obligations, including with respect to our indebtedness, and any failure to comply with the obligations of any of our debt agreements, including financial and other restrictive covenants, could result in an event of default under the agreements governing our indebtedness;
- increase our vulnerability to general adverse economic, industry and competitive conditions;
- limit our ability to borrow additional funds; and
- limit our financial flexibility.

Each of these factors may have a material and adverse effect on our financial condition and viability. Our ability to make payments with respect to our indebtedness and to satisfy any other debt obligations will depend on our future operating performance, which will be affected by prevailing economic conditions and financial, business and other factors affecting us and our industry, many of which are beyond our control.

Risks Related to Our Industry

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 our customers' inability to proceed with their operations, which would adversely affect our operations.

Cannabis growers use equipment that we offer for sale. 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 customers, or the sales of our products.

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 memo 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 customers and potential customers to access the U.S. banking systems and conduct financial transactions, which would adversely affect our operations.

In December 2019, Congress passed a spending bill (the "2020 Appropriations Bill") containing a provision (the "Appropriations Rider") blocking federal funds and resources allocated under the 2020 Appropriations Bill from being used to prevent any U.S. states or territories "from implementing their own laws that authorize the use, distribution, possession, or cultivation of medical marijuana." While the Appropriations Rider seems to prohibit the federal government from interfering with the ability of states to administer their medical marijuana laws, it does not codify federal protections for medical marijuana patients or producers. In fact, the 2020 Appropriations Bill also contains provisions prohibiting the use of federal funds allocated thereunder "to enact or carry out any law, rule, or regulation to legalize or otherwise reduce penalties associated with the possession, use, or distribution of any schedule I substance under the Controlled Substances Act (21 U.S.C. 801 et seq.) or any [THC] derivative." Accordingly, the DOJ can still prosecute violations of the federal marijuana ban. Additionally, the Appropriations Rider must be re-enacted every year. We cannot predict whether the Appropriations Rider will be extended in future years or if a new budget will be enacted after the upcoming 2020 presidential election. If the Appropriations 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, our business involves the cultivation, distribution, manufacture, storage, transportation and/or sale of medical and adult use cannabis products in compliance with applicable state law. The success of our business 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 customers 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 customers and, in turn, our operations.

Laws and regulations affecting the medical and adult-use marijuana industry are constantly changing, which could detrimentally affect our customers 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 customers 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 customers' 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 customers are authorized to produce. We cannot predict the nature of any future laws, regulations, interpretations or applications, nor can it determine what effect additional governmental regulations or administrative policies and procedures, when and if promulgated, could have on our operations.

Regulatory scrutiny of relating to our target market may negatively impact our ability to raise additional capital.

Our business activities 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 Advisory 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 its ability to raise additional capital.

We are dependent on the licensing of our customers.

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

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 customers 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 customers and to us.

Risks Related to Our Common Stock

Our Common Stock was recently approved to trade on the OTCQX, but there has been very little trading activity in our Common Stock and there can be no assurance that such a market will develop in the future.

Our application to list our Common Stock for trading on the OTCQX was approved on October 7, 2019. To date, there has been very little trading in our Common Stock, and there can be no assurance that a market will develop in the future or, if developed, that it will continue. In the absence of a public trading market, an investor may be unable to liquidate their investment in our Company.

Any adverse effect on the market price of our Common Stock could make it difficult for us to raise additional capital through sales of equity securities at a time and at a price that we deem appropriate.

Sales of substantial amounts of our Common Stock, or in anticipation that such sales could occur, may materially and adversely affect prevailing market prices for our Common Stock, if and when such market develops in the future.

The market price of our Common Stock may fluctuate significantly in the future.

We expect that the market price of our Common Stock may fluctuate in response to one or more of the following factors, many of which are beyond our control:

- competitive pricing pressures;
- our ability to market our services on a cost-effective and timely basis;
- our inability to obtain working capital financing, if needed;
- changing conditions in the market;
- the occurrence or threat of epidemic or pandemic diseases, such as the recent outbreak of coronavirus, or any government response to such occurrence or threat;
- changes in market valuations of similar companies;
- stock market price and volume fluctuations generally;
- regulatory developments;
- fluctuations in our quarterly or annual operating results;
- additions or departures of key personnel; and
- future sales of our Common Stock or other securities.

The price at which you purchase our Common Stock may not be indicative of the price that will prevail in the trading market. You may be unable to sell your Common Stock at or above your purchase price, which may result in substantial losses to you and which may include the complete loss of your investment. In the past, securities class action litigation has often been brought against a company following periods of stock price volatility. We may be the target of similar litigation in the future. Securities litigation could result in substantial costs and divert management's attention and our resources away from our business. Any of the risks described above could adversely affect our sales and profitability and also the price of our Common Stock.

There is heightened scrutiny by Canadian regulatory authorities

Our existing operations in the United States, and any future operations or investments, may become the subject of heightened scrutiny by regulators, stock exchanges 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, in addition to those described herein.

It had been reported in Canada that the Canadian Depository for Securities Limited considered a policy shift that would see its subsidiary, CDS, refuse to settle trades for cannabis issuers or issuers with cannabis related activities that have investments in the United States. CDS is Canada's central securities depository, clearing and settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time. 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 the Common Stock are listed on a stock exchange, it would have a material adverse effect on the ability of holders of Common Stock to make and settle trades. In particular, the Common Stock would become highly illiquid until an alternative was implemented, and investors would have no ability to effect a trade of the Common Stock through the facilities of the CSE.

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

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

In addition, our Articles authorize the issuance of up to 10,000,000 preferred shares with such rights and preferences determined from time to time by our Board. As of December 31, 2019, none of our preferred shares were currently issued or outstanding. Our Board may, without shareholder 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, as amended, 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 Jumpstart our Business Startups 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 shareholder 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 first fiscal year following the fifth anniversary of the first sale of our Common Stock under an effective Securities Act registration statement as an emerging growth company; (ii) the first fiscal year after our annual gross revenues are $1.0 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 Q2 of that fiscal year.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage once we put such coverages in place, which we intend to implement in the near future. These factors could also make it more difficult for us to attract and retain qualified members of our Board, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in this Report and in filings required of a public company, our business and financial condition will become more visible, which we believe 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 lack effective internal controls.

Effective internal controls are necessary for us to provide reliable financial reports and to help prevent fraud. Although we will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of our financial reports, including those imposed by applicable securities law, we cannot be certain that such measures will ensure that we will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in our consolidated financial statements and materially adversely affect the trading price of the shares.

We do not anticipate paying dividends.

We have not paid dividends on our Common Shares and do not anticipate paying dividends in the foreseeable future. Our dividend policy will be reviewed from time to time by our board of directors in the context of our earnings, financial condition and other relevant factors. Until the time that we pay dividends, which we may never do, our shareholders will not be able to receive a return on their Common Stock unless they sell them.

Our Common Stock is subject to the "penny stock" rules of the SEC and the trading market in our securities is limited, which makes transactions in our Common Stock cumbersome and may reduce the value of an investment in our Common Stock.

The SEC has adopted Rule 15g-9 which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require:

- that a broker or dealer approve a person's account for transactions in penny stocks; and
- the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the broker or dealer must:

- obtain financial information and investment experience objectives of the person; and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

The broker or dealer must also deliver, prior to any transaction in a penny stock, a disclosure schedule prescribed by the SEC relating to the penny stock market, which:

- sets forth the basis on which the broker or dealer made the suitability determination; and
- that the broker or dealer received a signed, written agreement from the investor prior to the transaction.

Generally, brokers may be less willing to execute transactions in securities subject to the "penny stock" rules. This may make it more difficult for investors to dispose of our Common Stock and cause a decline in the market value of our Common Stock

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 consists of approximately 10,000 square feet, including approximately 3,500 of office space and 6,500 square feet of warehouse space. This lease will expire on August 31, 2021, unless the Company elects to exercise the one-year extension, which is exercisable at the Company's discretion**.** We currently pay monthly rent of $11,625, through August 2020, and $12,000 per month for the remaining term of the lease.

We also have a satellite office centrally located in the Denver metro area that allows us to access larger engineering talent pools. On September 1, 2019, we moved our location to 414 14th Street, Suite 250, Denver, Colorado, 80202 and entered into a 28 month sublease for 5,250 square feet of office space. After a two month period of free rent, the sublease has a monthly rent of $8,094 plus utilities for twelve months, then a monthly rent of $8,313 plus utilities for the next twelve months, and a monthly rent of $8,531 plus utilities for the last two months.

ITEM 3. LEGAL PROCEEDINGS.

From time to time we become involved in or are threatened with what we consider to be immaterial disputes. Currently, we are not involved in any legal proceedings, nor are we aware of any legal proceedings threatened or in which any director or officer or any of their affiliates is a party adverse to our Company or has a material interest adverse to us.

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 October 7, 2019, our Common Stock was approved for trading on the OTCQX under the trading symbol UGRO.

The following table sets forth the high and low closing bid price information for our Common Stock for the periods indicated. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down, or commission and may not necessarily represent actual transactions. Trading activity for our Common Stock can be found at www.otcmarkets.com.

Period	Low	High
October 7, 2019 thru December 31, 2019	$1.20	$2.55

HOLDERS

As of May 18, 2020, we had 134 holders of record for our Common Stock.

DIVIDEND POLICY

We have not paid any dividends since our incorporation and do not anticipate the payment of dividends in the foreseeable future. At present, our policy is to retain earnings, if any, to develop and market our products. The payment of dividends in the future will depend upon, among other factors, our earnings, capital requirements, and operating financial conditions.

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.

ITEM 6. SELECTED FINANCIAL DATA.

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

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on our behalf. We disclaim any obligation to update forward looking statements.

Overview

urban-gro is a leading engineering design services company that integrates complex environmental equipment systems to create high-performance indoor cultivation facilities for the global commercial horticulture market. Our custom tailored, plant-centric approach to design, procurement, and integration provides a single point of accountability across all aspects of indoor growing operations. Our solution offers functionality that helps customers manage the entire cultivation lifecycle, from facility engineering and design to operation and day-to-day management. We offer a full range of custom services that are integrated with select cultivation equipment and product solutions, which we primarily source from third party technology and manufacturing partners but also develop in-house.

Our service offerings include full facility programming, engineering and design services, start-up facility and equipment commissioning services, facility optimization services and IPM planning and strategy services. Complementing these services, we work with customers to source an integrated suite of select cultivation equipment systems and crop management products, which include: (1) environmental controls, fertigation, and irrigation distribution systems; (2) freshwater, wastewater, and condensation treatment systems; (3) purpose-built HVAC solutions; (4) light emitting diode ("LED"), high-pressure sodium ("HPS") and ceramic metal halide ("CMH") lighting systems; (5) rolltop, multi-tier, and automated container benching systems; (6) odor mitigation & microbial reduction systems; (7) air flow systems; (8) industrial spray applicators; (9) pesticides and bio-controls; (10) plant nutrition products; (11) substrate and coco bag solutions; and (12) our Soleil® technology data analytics platform that includes wireless environmental & substrate sensing and remote monitoring and support.

We primarily market and sell our products and services to operators of commercial indoor cultivation facilities in the United States and Canada. To date, our primary customer 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 over 200+ projects for some of the largest independent and multi-state operators (MSOs) in both the United States and Canada. With Grow2Guys' experience on over 300 projects, our engineering and design teams have combined experience of over 500 projects.

Although the rapidly expanding cannabis market has been our target market and substantially all of our revenues to date have been generated from customers in the cannabis industry, we are seeking to diversify our customer base by expanding into other segments of the indoor horticultural market, including targeting cultivators of high value crops such as tomatoes, strawberries, chilies, peppers, and leaf lettuce. During 2019, we also began exploring the potential demand for our solutions in select countries, including those within Latin America and Europe.

RECENT DEVELOPMENTS

As the cannabis industry has matured, so has the scrutiny by the capital markets. Both investors and analysts are evaluating companies and their focus on profitability. In August 2019, due to liquidity constraints, we commenced targeted cost reduction initiatives to focus on our company's core services. We believe these targeted efforts will reduce our ongoing operating expenses, including general and administrative costs, as follows:

- Reduced employee headcount by 15, which we expect to result in future annual savings of up to $1.8 million, including benefits and travel;
- Reduced annual marketing expenditures by $0.5 million by limiting participation in tradeshows and outsourced marketing functions;
- Eliminated outsourced product development, which we spent approximately $0.3 million on during the year ended December 31, 2019; and
- Reduced corporate functions and activities, which is expected to result in future annual savings of up to $0.2 million.

Credit Agreement

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 Engineering, Inc., as guarantors, the lenders party thereto (the "Lenders"), and Bridging Finance Inc., as administrative agent for the Lenders (the "Agent"). The Credit Agreement, which is denominated in Canadian dollars (C$), is 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 may 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 final maturity date of the Facilities is 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 "Maturity Date"). The Facilities bear 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 will be due and payable monthly in arrears, on the last business day of each month, and on the Maturity Date.

The Revolving Facility may be borrowed and re-borrowed on a revolving basis by us during the term of the Facilities, provided that borrowings under the Revolving Facility will be 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 may be prepaid in part or in full without a penalty at any time during the term of the Facilities, and the Term Loan may be prepaid in full or in part without penalty subject to 60 days prior notice in each case subject to certain customary conditions. As of April 30, 2020, C$0.4 million ($0.3 million) of the Revolving Facility was available for future borrowings.

We used a portion of the proceeds from the Term Loan to pay the Agent a commitment fee in the amount of C$162,000 ($116,000). Pursuant to the Credit Agreement, we will be required to pay the Agent an annual administration and monitoring fee in the amount of C$32,400 ($23,000) plus applicable taxes. As additional consideration for the entering into the Credit Agreement, we issued 500,000 shares of Common Stock on the closing date to the Agent, or the Lenders or their nominee, in each case as directed by the Agent. In addition, we utilized a portion of the proceeds from the Term Loan to refinance existing indebtedness, including a $2.0 million loan with Hydrofarm Holdings Group, Inc., dated December 6, 2018. We terminated the Hydrofarm Loan Agreement concurrently with the closing of the transactions contemplated by the Credit Agreement. Remaining proceeds from the Facilities are expected to be used (i) to pay down existing debt obligations and (ii) for general working capital purposes.

The obligations of the Company under the Facilities are secured on a first lien basis (subject to certain permitted liens as set forth in the Credit Agreement) by substantially all of the assets of the Company and certain wholly-owned subsidiaries of the Company, as well as a limited recourse personal guarantee of Bradley Nattrass, our Chief Executive Officer ("CEO").

The Credit Agreement also contains customary provisions, representations, warranties and events of default for facilities of this nature and affirmative and negative covenants, including without limitation, covenants relating to maintenance of collateral, reorganization and change of control transactions, creation of liens and incurrence of indebtedness.

Amendment of Promissory Note and Subordination Agreement

In connection with the execution of the Credit Agreement, on February 21, 2020, we entered into an agreement to amend the promissory note (the "Promissory Note") dated October 18, 2018, as amended on May 20, 2019, between the Company and Cloud9 Support Inc. ("Cloud9"), an entity owned by James Lowe, a director of the Company (the "Amending Agreement"). Pursuant to the Amending Agreement, Cloud9 agreed to extend the maturity date of the promissory note 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 Lender under the Credit Agreement; or (b) which is the Maturity Date of the Credit Agreement.

In addition, on February 25, 2020, the Company entered into a subordination, postponement and standstill agreement with Cloud9 (the "Subordination Agreement") pursuant to which Cloud9 agreed to postpone and subordinate all payments due under the Promissory Note until the Facilities 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's agreement to extend the maturity date of the Promissory Note and to enter into the Subordination Agreement, we issued 100,000 shares of common stock to Mr. Lowe as designee of Cloud9.

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. In January 2020, this coronavirus spread to other countries, including the United States, and efforts to contain the spread of this coronavirus intensified. In March 2020, the World Health Organization declared the outbreak of the coronavirus a pandemic. We are a business that supplies other essential businesses with support and supplies necessary to operate and we therefore believe we are an essential business allowed to continue operating under the Stay-At-Home Orders issued by many states and cities. However, the extent to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact. The outbreak and any preventative or protective actions that governments or we may take in respect of COVID-19 may result in a period of business disruption, reduced customer business and reduced operations.

Due to the uncertainty and adverse impact on our operations and financial condition resulting from the outbreak of COVID-19, we took the following actions:

- In March 2020, we began executing a substantial reduction in discretionary marketing and general & administrative expenses;
- On March 30, 2020, we reduced our headcount by 13 people (27%), from 48 to 35, by terminating ten employees and furloughing three other employees, including one member of our leadership team;
- Effective April 6, 2020, we reduced compensation for almost every remaining employee, including a 20% reduction for the senior members of our leadership team.

The effects from the COVID-19 pandemic began in the latter portion of the first quarter of 2020; therefore, there was no impact to our 2019 results of operations, financial condition and cash flows discussed in more detail herein. Any resulting financial impact cannot be reasonably estimated at this time but may materially affect our business, financial condition, results of operations, and cash flows.

Coronavirus Aid, Relief, and Economic Security Act ("CARES Act")

On March 27, 2020, the CARES Act was enacted. The CARES Act is an approximate $2 trillion emergency economic stimulus package passed in response to the coronavirus outbreak. The CARES Act, among other things, includes broad sweeping provisions such as direct financial assistance to Americans in the form of one-time payments to individuals; aid to businesses in the form of loans and grants; and efforts to stabilize the U.S. economy and keep Americans employed in general. On April 16, 2020, we received a loan in the amount of $1,020,600 under the Paycheck Protection Program ("PPP") of the CARES Act. The PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The PPP provides a mechanism for forgiveness of up to the full amount borrowed after eight weeks as long as the borrower uses the loan proceeds during the eight-week period after the loan origination for eligible purposes, including payroll costs, certain benefits costs, rent and utilities costs or other permitted purposes, and maintains its payroll levels, subject to certain other requirements and limitations. The amount of loan forgiveness is subject to reduction, among other reasons, if the borrower terminates employees or reduces salaries during the eight-week period. The interest rate on the loan is 1.0% per annum. Payments of principal and interest are deferred for seven months from the date of the loan (the "Deferral Period"). Any unforgiven portion of the PPP Loan is payable over the two-year term, with payments deferred during the Deferral Period. The Company is permitted to prepay the loan at any time without payment of any premium.

RESULTS OF OPERATIONS

We generate revenue from (i) engineering design service fees received for the engineering and design of cultivation facilities and complex equipment systems, (ii) the sale, integration, and commissioning of these equipment systems, and (iii) selling consumable products and professional consulting services once facilities are operational.

Comparison of Results of Operations for the years ended December 31, 2019 compared to 2018

During the year ended December 31, 2019, we generated revenues of $24.2 million compared to revenues of $20.1 million during the year ended December 31, 2018, an increase of $4.1 million (21%). While this increase is partially attributable to the general growth of the cannabis industry in North America, and a corresponding increase in the demand for our solutions, we believe that our increased marketing efforts and industry demand for large, environmentally controlled, grow facilities primarily contributed to the increase in our revenues. The increase in revenue primarily resulted from an increase of $4.3 million in sales of cultivation equipment, an increase of $2.2 million in professional services, an increase of $0.8 million in environmental sciences revenues offset by a decrease in sales of complex equipment systems and other revenue of $3.2 million. The overall increase in our revenues was primarily driven by an increase in the number of sales that we generated.

In 2019, we implemented a strategic initiative to more closely align with our customers and sell an all-encompassing enterprise platform solution. This solution is a full service consultative integrated facility package for interior cultivation design. Supporting this directive, for the year ended December 31, 2019, the Company secured engineering design service contracts for 76 projects, totaling 1,914,030 square feet.

Cost of sales increased to $17.6 million during the year ended December 31, 2019, compared to $13.9 million during the year ended December 31, 2018, an increase of $3.7 million (27%). This increase was directly related to an increase in revenue from our lower margin equipment sales, change in salary allocation, and an increase in payables for contractors related to our design services.

Gross profit increased to $6.6 million (27% of revenue) during the year ended December 31, 2019, compared to $6.2 million (31% of revenue) during the year ended December 31, 2018. Gross profit as a percentage of revenue decreased due to increased sales of lower margin products, primarily lighting systems, during 2019.

Operating expenses increased to $12.5 million for the year ended December 31, 2019, compared to $10.0 million for the year ended December 31, 2018, an increase of $2.5 million (25%). General and administrative expense, excluding amortization of broker issuing costs and broker warrants associated with our offering of convertible debentures of $0.4 million, increased by $1.5 million (19%), due primarily to our expanding work force. Many of our new employees are members of management, hold advanced degrees, and are experts in their area of focus, which increased compensation expense. Stock compensation expense increased by $0.6 million primarily as a result of the timing of vesting of stock grants and stock options previously issued under our stock grant and stock option programs.

As discussed above in “Recent Developments”, beginning in August 2019, due to liquidity constraints, we implemented certain cost reduction initiatives that we anticipate will reduce our future operating expenses, including general and administrative costs.

Interest expense, excluding amortization related to the convertible debentures of $1.3 million in the year ended December 31, 2019, was $0.7 million compared to $0.1 million incurred during the year ended December 31, 2018, as a result of increased debt.

As a result of the above, we incurred a net loss of $8.4 million for the year ended December 31, 2019 ($0.32 per share) compared to a net loss of $3.9 million for the year ended December 31, 2018 ($0.16 per share). For the year ended December 31, 2019, $4.2 million of this loss relates to non-cash expenses compared to $1.4 million of non-cash expenses incurred in the year ended December 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2019, cash or cash equivalents were $448,703, which represented a decrease of $730,149 from December 31, 2018.

Since inception, we have incurred significant operating losses and have funded our operations primarily through issuances of equity securities, debt, and operating revenue. As of December 31, 2019, we had an accumulated deficit of $16,890,626, a working capital deficit of $7,318,980, and negative stockholders’ equity of $5,008,334. See “Recent Developments” above regarding certain cost reduction initiatives that we implemented in August 2019 to focus on our company’s core services and reduce our operating costs and general and administrative expenses. Notwithstanding these measures, there remain risks and uncertainties regarding our ability to generate sufficient revenues to pay our debt obligations and accounts payable when due. These risks and uncertainties raise substantial doubt about our ability to continue as a going concern within one year after the date that the consolidated financial statements in connection with this Report are issued. The consolidated financial statements included in this Report have been prepared on a going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might result from the outcome of this uncertainty. Our ability to continue as a going concern is dependent upon, among other things, our ability to generate revenue, control costs and raise capital. Other than the amount availability pursuant to the Revolving Facility, we do not currently have an agreement with any third party to provide us with such financing and there can be no assurances that we will be able to raise any capital on commercially reasonable terms, or at all. If we require additional capital and are unable to raise the same, it could have a material negative impact on our results of operations.

Although we are not actively engaged in the production of cannabis, federal law prohibitions on the cannabis industry in the United States inhibit our ability to establish traditional banking support and opportunities. Specifically, conventional banks are currently unwilling to provide us with any financing normally available to growth stage companies similar to ourselves, including purchase order financing. As a result, we have been forced to finance our expansion primarily by raising capital privately, as well as through private debt and operating capital. This has placed a significant impediment to our cash flows. However, as described above in “Recent Developments”, on February 21, 2020, we entered into the Credit Agreement, providing for a 12-month senior secured demand term loan facility in the amount of C$2.7 million ($2.0 million) and a 12-month demand revolving credit facility of up to C$5.4 million ($4.0 million). Our failure to obtain additional debt or equity financing in the future could have a negative impact on our ability to continue as a going concern or to grow and expand our operations, which will have a negative impact on our anticipated results of operations.

Effective January 9, 2019, we executed a letter agreement with 4Front Capital Partners, Inc., Toronto, Canada ("4Front"), whereby 4Front agreed to act as our exclusive placement agent in connection with a private placement offering. Beginning in March 2019, 4Front initiated an offering (the "Offering") of up to $6.0 million from the sale of Units, with each Unit consisting of a $1,000 Convertible Debenture (the "Debentures") and Common Stock Purchase Warrants (the "Warrants") to purchase 207.46 shares of our Common Stock at $3.00 per share for a period of two years from the purchase date. The Debentures were due May 31, 2021 and bore interest at 8%, compounded annually, with interest due at maturity. On October 16, 2019, the $2.6 million in Debentures plus $92,037 in accrued interest were converted into 1,102,513 Common Shares at $2.41 per share pursuant to their terms as a result of our registration of the securities on a registration statement that was declared effective on such date. The Warrants contain a mandatory exercise provision if the weighted average share price of our Common Stock exceeds $5.00 per share for a period of five consecutive days.

Net cash used in operating activities was $2.5 million during the year ended December 31, 2019, compared to $2.3 million for the year ended December 31, 2018. Operating cash has been positively impacted from an increase in customer deposits as our business continues to grow. At December 31, 2019, we had $2.9 million in customer deposits related to customer orders. We require prepayments from customers before any design work is commenced and before any material is ordered from the vendor. These prepayments are booked to the customer deposits liability account when received. Our standard policy is to collect the following before action is taken on a customer order: 50% deposit; and the remaining 50% payment made prior to shipping. We expect customer deposits to be relieved from the deposits account no longer than 12 months for each project. At December 31, 2019, we had $1.3 million in prepayments and advances. This is primarily comprised of prepayments to vendors to initiate orders. 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. Due to the increase in customer projects we had increased prepayments to order materials from vendors.

Net cash used in investing activities was $1.1 million for the year ended December 31, 2019, compared to $1.3 million during the year ended December 31, 2018. Historically, cash has been used to increase our investments in strategic partnerships and to acquire property and equipment. We do not anticipate using significant cash in the future to invest in strategic partnerships. We will continue to have ongoing needs to purchase property and equipment to maintain our operations. We have no material commitments for capital expenditures as of December 31, 2019.

Net cash provided by financing activities was $2.9 million for the year ended December 31, 2019, compared to $3.1 million during the year ended December 31, 2018. Cash provided from financing activities during the year ended December 31, 2019 primarily relates to $2.6 million in proceeds we received from our Offering of Units in addition to a short term note payable for $1.0 million. Unless we revise the terms of our existing outstanding debt, including the Facilities, we will need to make significant payments in the future to pay off these outstanding obligations.

In October 2018, we issued a $1.0 million unsecured note payable to Cloud9 Support, Inc. (“Cloud9”), an entity owned by James Lowe, a director, which became due April 30, 2019. The loan had a one-time origination fee of $12,500. Interest accrued at the rate of 12% per annum and was paid monthly. As additional consideration for the loan we granted Mr. Lowe, as designee for Cloud9, an option to purchase 30,000 shares of our Common Stock at an exercise price of $1.20 per share, which option is exercisable for a period of five years. The loan is guaranteed by Mr. Nattrass, our CEO, a director and one of our principal shareholders, and by Mr. Gutierrez, one of our principal shareholders, a director, and a former officer of the Company. The due date for the note payable was extended in May 2019 to December 31, 2019 and the interest rate was decreased to 9% per year. In consideration for Cloud9 extending the maturity date of the note and reducing the interest rate, we agreed to issue 10,000 shares of our Common Stock to Mr. Lowe, as designee for Cloud9. In December 2019, in connection with our entry into the Facilities, the due date for the note payable was extended to December 31, 2021, and we agreed to issue Mr. Lowe, as designee for Cloud9, an additional 100,000 shares of Common Stock in exchange for this extension and his agreement to subordinate the loan to the obligations underlying the Facilities.

Gross debt, excluding operating leases, was $3.8 million and $3.5 million as of December 31, 2019 and December 31, 2018, respectively. This represents an increase in gross debt of $0.3 million primarily due to a $0.7 million short term note payable offset by principal paydowns.

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, 2019.

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 2018, the FASB issued ASU 2018-17 Consolidation (ASU 2018-17)- *Targeted Improvements to Related Party Guidance for Variable Interest Entities.* ASU 2018-17 broadens the scope of the private company alternative to include all common control arrangements that meet specific criteria (not just leasing arrangements). ASU 2018-17 also eliminates the requirement that entities consider indirect interests held through related parties under common control in their entirety when assessing whether a decision-making fee is a variable interest. Instead, the reporting entity will consider such indirect interests on a proportionate basis. ASU 2018-17 is effective for fiscal years beginning after December 15, 2019. The Company is currently assessing the timing and impact of adopting the updated provisions to its consolidated financial statements.

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.

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

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, 2019, 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.

Inherent Limitations – 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, 2019, 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.

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.

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, 2019. 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).

Based on its assessment, management has concluded that as of December 31, 2019, our disclosure controls and procedures and internal control over financial reporting were effective, based in part on the issues discussed above.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names, ages and positions of our executive officers and directors as of May 14, 2020:

Name	Age	Position
Bradley J. Nattrass	47	Chief Executive Officer and Chairman of the Board
Richard (Dick) A. Akright	61	Chief Financial Officer and Director
Jonathan Nassar	50	Executive Vice President – Sales
Mark Doherty	41	Executive Vice President – Operations
Brian Zimmerman	59	Executive Vice President – Engineering
James H. Dennedy	54	Director
Lance Galey	44	Director
Octavio Gutierrez	48	Director
James R. Lowe [(1)]	40	Director
Lewis O. Wilks [(1)(2)(3)]	66	Director

Executive Officers

Bradley J. Nattrass is one of our founders and was our Managing Member from March 2014 until March 2017 when we converted to a corporation and he became our Chief Executive Officer and our Chairman. From October 2015 to August 2016, he was the Managing Member of enviro-glo, LLC, a Colorado limited liability company engaged in the manufacturing and branding of commercial lighting products. Previously, from January 2012 through August 2016, he was the Managing Member of Bravo Lighting, LLC, a Colorado limited liability company engaged in the distribution of commercial lighting products. From April 2011 to January 2014, he was a Vice President for Barbeque Wood Flavors, Inc., a Texas corporation engaged in the manufacturing, import and sale of barbeque grilling products. Mr. Nattrass received a Bachelor of Commerce degree from the University of Calgary in marketing in 1995 and an MBA from the University of Phoenix in 2001. Mr. Nattrass brings executive leadership experience, organizational experience, and extensive experience in the industry to the Board. Mr. Nattrass is familiar with the Company's day-to-day operations and performance and the horticulture industry in general. Mr. Nattrass' insight into the Company's operations and performance is critical to Board discussions.

Richard (Dick) A. Akright was appointed as our Interim Chief Financial Officer in August 2019 and was appointed as our Chief Financial Officer in December 2019. He was appointed as a director of our company in February 2020. From August 2018 to present, Mr. Akright has been a director with Akright Group International LLC, where he performs financial consulting services for small and mid-sized businesses. From May through July 2018, he was unemployed. From July 2013 through May 2018, he served as Chief Financial Officer for LABS, Inc., a privately held company. Mr. Akright was a director and chair of the Audit Committee for Koala Corporation (Nasdaq: KARE) in 2003. He has served as Chief Financial Officer of companies owned by private equity investors and in the top financial position of corporate divisions of publicly traded companies. He received a Bachelor of Business degree in Accounting from Western Illinois University in 1980 and a Master of Science in Business Administration from Colorado State University in 1989. Mr. Akright is a former chief financial officer who brings more than 20 years of executive leadership experience across a variety of industries. In addition, he brings prior public company director experience to our Board. His prior experience and financial expertise provide the Board with important insights into business operations.

Jonathan Nassar joined urban-gro in September 2018 as Executive Vice President of Sales where he oversees urban-gro's global sales efforts and "Go to Market" strategy. From October 2016 to present, Jonathan has been a founder in Steelgenix, an advanced building systems company. From December 2014 to December 2016 Jonathan was Senior Vice President of Sales for Documoto, a cloud-based solutions company. Jonathan has over 20 years of technology leadership and sales experience and has also been a real estate developer. Jonathan received a Bachelor of Science in Business Management from Wesley College, Delaware.

Mark Doherty joined urban-gro in March 2016 and was appointed as our Executive Vice President of Operations in December 2019. Prior to his appointment, Mark served urban-gro in the roles of Director of Sales, Director of Project Management and Vice President of Cultivation Technologies. From 2013 until joining the urban-gro team, Mark served as Managing Partner for MedCann Advisors, a consulting firm focused on license acquisition in competitive bid cannabis markets. Mark began his career in controlled environment agriculture in 2010 when he founded Aqua Vita Farms, a 14,000 square foot indoor aquaponic operation producing fish, lettuce, and basil. Mark earned his BS in Business Administration from SUNY Polytechnic Institute and holds an MBA from the State University of New York.

Brian L. Zimmerman was appointed as our Executive Vice President of Engineering in December 2019. Mr. Zimmerman is also President of Impact Engineering, Inc., where he has served since he formed the company in June 1997. The Company acquired Impact Engineering, Inc. in March of 2019. Mr. Zimmerman has over 30 years of experience as a designer, engineer and owner in the commercial HVAC, plumbing and electrical engineering markets. Mr. Zimmerman received a Bachelor of Science Degree in Mechanical Engineering Technology from Metropolitan State University in 1989 and passed the Colorado Professional Engineering Exam in 1992. Mr. Zimmerman is a registered Professional Engineer in Colorado and has Professional Engineering reciprocity in Arizona and California.

Directors

James H. Dennedy was appointed as a director of our Company in August 2018. From January 2017 to present, Mr. Dennedy has served as Director and Chief Financial Officer for Interurban Capital Group, a capital investment and management services company. From May 2011 through January 2017, he was the President and Chief Executive Officer of Agilysys, Inc., a company offering software solutions to the hospitality industry. Mr. Dennedy served as a director for Agilysis, Inc. (Nasdaq: AGYS) from June 2009 to January 2017. Mr. Dennedy received an MA degree in Economics from the University of Colorado, Boulder, an MBA degree from The Ohio State University and a BS degree in Economics from the US Air Force Academy. Mr. Dennedy has extensive financial, executive leadership, and organizational experience. Mr. Dennedy also has experience serving as a director of a public company, which brings important insights into board oversight and corporate governance matters. Mr. Dennedy is chairman of the Company's Audit Committee and an Audit Committee financial expert with experience in various accounting and financial roles.

Lance Galey was appointed as a director of our Company in August 2018. Since 2020, Mr. Galey has served as the Chief Software Architect of Autodesk, Inc. From July 2017 to January 2020, Mr. Galey served as Vice President, SaaS Engineering, Oracle Cloud Infrastructure at Oracle. From June 2016 to July 2017, Mr. Galey was Chief Technology Officer for MassRoots, Inc., a publicly traded company providing a technology platform for the cannabis industry. From May 2016 through June 2017, Mr. Galey was the Principal Cloud Architect at Dynamics 365 at Microsoft, Inc. From February 2014 through April 2016, he was Chief Cloud Architect at Autodesk, Inc., where he helped transform their products into strategic SaaS businesses. From June 2012 through February 2014, he was Vice President and Principal Architect at Salesforce.com, where he led the architecture and development of numerous core infrastructure services underlying a large portfolio of Salesforce SaaS applications and was selected as the executive MVP for the technology division of Salesforce.com. Prior to his time at Salesforce, Mr. Galey served as Chief Architect and Head of OpenStack Engineering of Cloud Services for WebEx, a division of Cisco and as the Director of Architecture for the Disney Connected and Advanced Technologies division of The Walt Disney Company. Mr. Galey also served as Senior Program Manager at Microsoft Inc. and began his career at Amazon and Level 3 Communications. He received a Bachelor of Science degree from Regis University in 2004. Mr. Galey is a seasoned executive with technical and management experience in the industry in which the Company operates. Mr. Galey brings vital technological expertise to the Board and provides important insights to our Board regarding the Company's equipment and product offering and the business development of the Company.

Octavio ("Tavo") Gutierrez is one of our founders and was one of our Managing Members from March 2014 until March 2017 when we converted to a corporation and he became our Chief Development Officer and a director. In February 2019 he transitioned to a new role as Executive Vice President of International Business. He resigned as our Executive Vice President and was appointed as our Secretary in August 2019 when he ceased full time employment with us. He has since formed Sigmet, LLC, and is focused on expanding various U.S. companies' presence and market development in Latin America. Starting in October 2015 he has been the Managing Member of enviro-glo, LLC, a Colorado limited liability company engaged in the manufacturing and branding of commercial lighting products. Previously, starting in January 2012 he has been the Managing Member of Bravo Lighting, LLC, a Colorado limited liability company engaged in the distribution of commercial lighting products. From July 2010 through November 2013, he was the Vice President of Operations for Stone Lighting, LLC, an Illinois limited liability company engaged in the material sourcing, manufacturing, assembly, and distribution of premium decorative and low voltage lighting systems. Mr. Gutierrez received a Bachelor of International Business from Universidad Autonoma de Guadalajara in Guadalajara, Mexico.

James R. Lowe was appointed as a director of our Company in August 2018. Mr. Lowe cofounded MJardin Group in 2014 where he served as President of Cultivation, overseeing all cultivation operations through 2017. Mr. Lowe left MJardin Group to become EVP of Operations of GrowForce, a spinout from MJardin Group based in Canada focusing on international cannabis opportunities. Mr. Lowe is no longer an officer of Growforce. Mr. Lowe has served as a director of MJardin Group (CSE: MJAR) (OTCQX: MJARF) since March 2014. Since December 2015, he has also been an owner of Potco LLC, one of the highest grossing single site medical cannabis dispensary and grow facilities in Colorado. He has also been a cultivation advisor for Lightshade Labs, LLC, where he has provided guidance on cultivation operations since 2012. Mr. Lowe is also the owner of Next1 Labs, a vertically integrated extraction and concentrate business with a multi-acre outdoor farm complex and the one of the largest producers of live resin products in the state of Colorado. Lastly, Mr. Lowe entered the legal cannabis market in 2009 as the owner of Cloud9 Support LLC, a retail horticulture supplies and design company that was responsible for over 50 design projects and construction assists while laying the groundwork for future endeavors. Mr. Lowe brings to the Board significant experience in the horticulture and cannabis industry and prior public company director experience within the industry. Mr. Lowe's extensive knowledge of the industry brings valuable insights to the Board regarding customer demand and product offerings. These views add important insights within discussions of the Board.

Lewis O. Wilks was appointed as a director of our Company in August 2018. Since 2004, Mr. Wilks has been the Senior Managing Partner at Bright Peaks Venture Capital LLC, where he oversees the company's investments. In addition, since November 2015, he has been the Executive Chairman of NCS Analytics, a Denver based company that is implementing its patent pending, predictive analytics engine to provide financial, regulatory, and audit service to clients with real-time alerts for cash intensive businesses. Since June 2017, he has also been Chairman of FuseIntel, a company doing intelligence sector analytics. From September 1997 to September 2001, he served as the Chief Strategy Officer for Qwest Communications. Mr. Wilks received a Bachelor of Science degree in Computer Science from the University of Central Missouri in 1979. Mr. Wilks brings valuable experience to the Board through his prior management and technical experience. His business understanding and technological background provide the Board with important insights regarding the Company's operations, product offering and business development.

To the best of the Company's knowledge, there are no arrangements or understandings between any director or executive officer and any other person pursuant to which any person was selected as a director or executive officer. There are no family relationships between any of the Company's directors or executive officers. To the Company's knowledge, there have been no material legal proceedings as described in Item 401(f) of Regulation S-K during the last ten years that are material to an evaluation of the ability or integrity of any of the Company's directors or executive officers.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires the Company's directors, executive officers, and any persons who own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC. SEC regulations require executive officers, directors, and greater than 10% stockholders to furnish us with copies of all Section 16(a) forms they file. Based solely on the Company's review of the copies of such forms furnished or available to the Company, the Company believes that its directors, executive officers, and 10% stockholders complied with all Section 16(a) filing requirements for the year ended December 31, 2019, except as follows: Jonathan Nassar (1 known failure to file); Mark Doherty (1 known failure to file); and Brian Zimmerman (1 known failure to file).

Code of Business Conduct and Ethics

Our Code of Business Conduct and Ethics applies to all of our officers, employees and directors, including our Chief Executive Officer and Chief Financial Officer. We have always conducted our business in accordance with the highest standards of conduct. Full compliance with the letter and spirit of the laws applicable to our businesses is fundamental to us. Equally important are equitable conduct and fairness in our business operations and in our dealings with others. Our Code of Business Conduct and Ethics reflects the foregoing principles. The full text of our Code of Business Conduct and Ethics is published on our website at https://ir.urban-gro.com/investors/.

We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of the Code of Business Conduct and Ethics applicable to our Chief Executive Officer and Chief Financial Officer by posting such information on our website https://ir.urban-gro.com/investors/.

Corporate Governance Guidelines

The Board has also adopted a set of Corporate Governance Guidelines that reflect our governance principles and our commitment to maintaining high corporate governance standards. The Corporate Governance and Nominating Committee is responsible for periodically reviewing the Corporate Governance Guidelines and the Code of Business Conduct and Ethics and making recommendations on governance issues that should be addressed by the Board.

Audit Committee

Our Board has established an Audit Committee, which as of February 2020 consists of three independent directors, Mr. Dennedy (Chairperson), Mr. Wilks and Mr. Galey. The Audit Committee's primary duties are to: (1) review and discuss with management and our independent auditor our annual and quarterly financial statements and related disclosures, including disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the results of the independent auditor's audit or review, as the case may be; (2) review our financial reporting processes and internal control over financial reporting systems and the performance, generally, of our internal audit function; (3) oversee the audit and other services of our independent registered public accounting firm and be directly responsible for the appointment, independence, qualifications, compensation and oversight of the independent registered public accounting firm, which reports directly to the Audit Committee; (4) provide an open means of communication among our independent registered public accounting firm, management, our internal auditing function and our Board; (5) review any disagreements between our management and the independent registered public accounting firm regarding our financial reporting; (6) prepare the Audit Committee report for inclusion in our proxy statement for our annual stockholder meetings; (7) establish procedures for complaints received regarding our accounting, internal accounting control and auditing matters; and (8) approve all audit and permissible non-audit services conducted by our independent registered public accounting firm.

The Board has determined that each of our Audit Committee members are independent of management and free of any relationships that, in the opinion of the Board, would interfere with the exercise of independent judgment and are independent, as that term is defined under the enhanced independence standards for audit committee members in the Securities Exchange Act of 1934, as amended, and the rules promulgated thereunder.

The Board has determined that Mr. Dennedy is an "audit committee financial expert," as that term is defined in the rules promulgated by the SEC pursuant to the Sarbanes-Oxley Act of 2012. The Board has further determined that each of the members of the Audit Committee shall be financially literate and that at least one member of the committee has accounting or related financial management expertise, as such terms are interpreted by the Board in its business judgment.

ITEM 11. EXECUTIVE COMPENSATION

This Item 11 describes the compensation arrangements we have with our named executive officers as set forth under the rules of the SEC. Consistent with SEC rules, we are providing disclosure for Bradley J. Nattrass, our Chairman and Chief Executive Officer, and our two other most highly compensated executive officers as of December 31, 2019, Jonathan Nassar, Executive Vice President – Sales, and Mark Doherty, Executive Vice President – Operations.

We have a Compensation Committee comprised of Messrs. Wilks, Dennedy and Galey. Under our Compensation Committee charter, our Compensation Committee determines and approves all elements of executive officer compensation. The Compensation Committee's primary objectives in determining executive officer compensation are (i) developing an overall compensation package that is at market levels and thus fosters executive officer retention and (ii) aligning the interests of our executive officers with our stockholders by linking a significant portion of the compensation package to performance.

Fiscal Year 2019 and 2018 Summary Compensation Table

The following Fiscal Year 2019 and 2018 Summary Compensation Table contains information regarding compensation for 2019 and 2018 that the Company paid to Mr. Nattrass and its two other most highly compensated executive officers as of December 31, 2019.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock awards ($)[1]	Option awards ($)[1]	Non-equity incentive plan compensation ($)	Nonqualified deferred compensation earnings ($)	All other compensation ($)	Total ($)
Bradley J. Nattrass	2019	240,962	–	–	–	–	–	19,950[2]	260,912
Chairman of the Board and Chief Executive Officer	2018	202,998	25,000	–	–	–	–	–	227,998
Jonathan Nassar[3]	2019	212,000	–	–	–	–	–	–	212,000
Executive Vice President - Sales	2018	53,606	–	125,000	134,406	–	–	–	313,012
Mark Doherty[4]	2019	148,846	18,000	–	40,545	–	–		207,391
Executive Vice President - Operations	2018	161,896	35,000	–	–	–	–	28,307[5]	225,203

(1) Amounts shown in the columns captioned "Stock awards" and "Option awards" represent the aggregate grant date fair value of the awards computed in accordance with ASC 718. For a description of the assumptions used by the Company to value these awards, see Note 13 to our financial statements included in the Annual Report.
(2) Represents amounts paid to Mr. Nattrass pursuant to a car allowance and health insurance premiums paid on Mr. Nattrass' behalf.
(3) Mr. Nassar received a restricted Common Stock grant of 125,000 shares on August 18, 2018 and a stock option to purchase 150,000 shares of Common Stock at an exercise price of $1.10 per share on August 18, 2018.
(4) Mr. Doherty received a stock option to purchase 45,000 shares of Common Stock at an exercise price of $1.20 per share on January 1, 2019.
(5) Represents moving expense reimbursements.

Employee Agreements

We do not have employment agreements with any of our named executive officers.

Equity Incentive Awards

Mr. Nattrass has not received any equity incentive awards.

Mr. Nassar received a restricted Common Stock grant of 125,000 shares on August 18, 2018 that vests proportionately on each August 31 over a 3-year period beginning on August 31, 2019. Mr. Nassar received a stock option grant to purchase 150,000 shares of Common Stock at an exercise price of $1.10 per share on August 18, 2018 that vests proportionately on each August 31 over a 3-year period beginning on August 31, 2019.

Mr. Doherty received a restricted a stock option grant to purchase 45,000 shares of Common Stock at an exercise price of $1,20 per share on January 1, 2019 that vests proportionately on each December 31 over a 3-year period beginning on December 31, 2019.

Retirement Benefits

We provide all qualifying employees with the opportunity to participate in our tax-qualified 401(k) plan. The plan allows employees to defer receipt of earned salary, up to tax law limits, on a pre-tax basis. Accounts may be invested in a wide range of mutual funds. The Company has not provided any employer contributions to the plan.

Fiscal Year 2019 Outstanding Equity Awards At Fiscal Year-End Table

The following table lists all of the outstanding equity awards held on December 31, 2019 by each of the Company's named executive officers. The table also includes the value of awards based on the closing price of the Common Stock on December 31, 2019, which was $1.20 per share.

	Option Awards					Stock Awards			
Name	**Number of securities underlying unexercised options exercisable (#)**	**Number of securities underlying unexercised options unexercisable (#)**	**Equity incentive plan awards: Number of securities underlying unexercised unearned options (#)**	**Option exercise price ($)**	**Option expiration date**	**Number of shares or units of stock that have not vested (#)**	**Market value of shares of units of stock that have not vested ($)**	**Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested (#)**	**Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested ($)**
Bradley J. Nattrass	–	–	–	–	–	–	–	–	–
Jonathan Nassar	50,000(1)	100,000(1)	–	$1.20	August 18, 2028	66,667	80,000	–	–
Mark Doherty	15,000(2)	30,000(2)	–	$1.20	January 1, 2029	–	–	–	–

(1) Mr. Nassar received a stock option to purchase 150,000 shares of Common Stock at an exercise price of $1.10 per share on August 18, 2018. Such options vest proportionately over three years, commencing on August 31, 2019.

(2) Mr. Doherty received a stock option to purchase 45,000 shares of Common Stock at an exercise price of $1.20 per share on January 1, 2019. Such options vest proportionately over three years, commencing on January 1, 2020.

Compensation of Directors

Elements of Director Compensation

Prior to January 2020, non-employee directors were provided with a stock option to purchase 100,000 shares of Common Stock upon their appointment to the Board. All such stock options are subject to vesting proportionately over a 3-year period, commencing on April 30th of each year following the year of the grant. In addition, each director who serves as a member of a standing committee of the Board was entitled to receive an additional stock option to purchase 10,000 shares of Common Stock for each committee on which he or she serves, which options vested at the end of each year of service on the applicable committee. The exercise price for any stock options issued to our non-employee directors will be at least equal to the fair market value on the applicable date of grant. Beginning in January 2020, non-employee directors were granted restricted shares of Common Stock as an annual retainer and for serving as a member of a standing committee. Each director will be required to attend a minimum of 75% of all Board meetings per year in person or telephonically. Directors are reimbursed for travel and other expenses directly associated with Company business. Directors that are also employees of the Company do not receive any additional compensation for their role as a director at this time.

Fiscal Year 2019 Director Compensation Table

The following table provides information regarding director compensation during 2019. Mr. Gutierrez did not receive director compensation as he was an employee during the majority of 2019. Mr. Nattrass' compensation is reported in the Fiscal Year 2019 and 2018 Summary Compensation Table.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)[1][2]	Non-equity incentive plan compensation ($)	Change in pension value and nonqualified deferred compensation earnings	All other compensation ($)	Total ($)
James H. Dennedy[3]	–	–	17,827	–	–	–	17,827
Lance Galey[4]	–	–	17,827	–	–	–	17,827
Octavio Gutierrez	–	–	–	–	–	–	–
James R. Lowe[5]	–	–	8,913	–	–	–	8,913
Lewis O. Wilks[6]	–	–	26,740	–	–	–	26,740

(1) The amounts in this column represent the aggregate grant date fair value of stock options computed in accordance with Accounting Standards Codification ("ASC") 718, *Compensation—Stock Compensation* ("ASC 718"). The fair value of stock options is calculated using the Black-Scholes option-pricing model.

(2) The chart below shows the aggregate number of outstanding restricted stock units and stock options held by each non-employee director as of December 31, 2019.

Director	Restricted Stock Units	Stock Options
Dennedy	–	120,000
Galey	–	120,000
Gutierrez	–	–
Lowe	–	110,000
Wilks	–	130,000

(3) Mr. Dennedy received an option under the Company's 2019 Equity Incentive Plan (the "2019 Plan") to purchase 20,000 shares at an exercise price of $1.20 for serving on the Audit Committee and Compensation Committee.

(4) Mr. Galey received an option under the 2019 Plan to purchase 20,000 shares at an exercise price of $1.20 for serving on the Compensation Committee and Corporate Governance and Nominating Committee.

(5) Mr. Lowe received an option under the 2019 Plan to purchase 10,000 shares at an exercise price of $1.20 for serving on the Corporate Governance and Nominating Committee.

(6) Mr. Wilks received an option under the 2019 Plan to purchase 30,000 shares at an exercise price of $1.20 for serving on the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee.

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

The Company's only outstanding class of voting securities is its Common Stock. The following table sets forth information known to the Company about the beneficial ownership of its Common Stock on May 5, 2020 by (i) each current director and director nominee; (ii) each named executive officer; and (iii) all of the Company's executive officers and directors as a group. Other than as set forth below, no person known to us beneficially owns 5% or more of the outstanding Common Stock as of May 5, 2020.

Unless otherwise indicated in the footnotes, each person listed in the following table has sole voting power and investment power over the Common Stock listed as beneficially owned by that person. Percentages of beneficial ownership are based on 28,709,312 Common Stock outstanding on May 5, 2020. Unless otherwise indicated in the footnotes, the address for each listed person is urban-gro, Inc., 1751 Panorama Point, Unit G, Lafayette, Colorado 80026.

	Shares Beneficially Owned[1]	
Name of Beneficial Owner	**Number**	**Percent**
Bradley J. Nattrass[2]	9,569,684	33%
Richard (Dick) A. Akright	3,125	*
Jonathan Nassar	108,333	*
Mark Doherty	236,242	1%
James H. Dennedy[3]	195,000	1%
Lance Galey	115,000	*
Octavio Gutierrez	9,569,684	33%
James R. Lowe[4]	889,775	3%
Lewis O. Wilks	128,334	*
All executive officers and directors as a group (10 persons)	21,315,177	74%

* Less than 1% of the outstanding Common Stock.

(1) Beneficial ownership as reported in the table has been determined in accordance with Rule 13d-3 under the Exchange Act and is not necessarily indicative of beneficial ownership for any other purpose. The number of shares of Common Stock shown as beneficially owned includes shares of Common Stock which may not be beneficially owned but over which a person would be deemed to exercise control or direction. The number of shares of Common Stock shown as beneficially owned includes shares of Common Stock subject to stock options exercisable and restricted stock units that were outstanding on May 5, 2020 and that will vest within 60 days of May 5, 2020. Shares of Common Stock subject to stock options exercisable and restricted stock units that will vest within 60 days after May 5, 2020 are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person.

(2) Mr. Nattrass pledged his 9,569,684 shares of Common Stock to Bridging Finance Inc. as security for loans provided by Bridging Finance Inc. to the Company under a term loan facility and revolving credit facility as further described in Note 17 to the consolidated financial statements included in the Annual report.

(3) Includes 75,000 shares owned by HMG MRB Partners of which Mr. Dennedy is a partner and may be deemed to be the beneficial owner.

(4) Mr. Lowe is the sole equity holder of Cloud9 Support, LLC and as such may be deemed to beneficially own 644,775 shares held by Cloud9 Support, LLC.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes information about our equity compensation plans as of December 31, 2019. All outstanding awards relate to our Common Stock.

Plan category	Number of securities to be issued upon vesting of grants and exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plan approved by stockholders[1]	151,000	$ 1.69	3,328,200
Equity compensation plan not approved by stockholders[2]	1,963,668	$ 1.14	–
Total	2,114,668	$ 1.21	3,328,200

(1) The 2019 Plan was adopted in March 2019.
(2) The Company's 2018 Equity Incentive Plan was adopted in January 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Certain Relationships and Related Transactions

The Company's policy requires that any transactions with related parties require a formal agreement to be entered into and the approval of the Board.

We purchase certain cultivation products from Bravo Lighting, LLC d/b/a Bravo Enterprises ("Bravo"), Bravo Aviation, and Enviro-Glo, LLC ("Enviro-Glo"), distributors of commercial building lighting and other product solutions, which are each controlled by Bradley Nattrass, our Chief Executive Officer, and Octavio Gutierrez, a director of the Company. Purchases from Bravo, Bravo Aviation and Enviro-Glo for the year ended December 31, 2019 totaled $45,129. Outstanding receivables from Bravo and Enviro-Glo as of December 31, 2019 totaled $0. Net outstanding payables incurred for purchases of inventory and other services to Bravo and Enviro-Glo as of December 31, 2019 totaled $8,570.

We entered into a lease agreement with Bravo to sublease office space for 12 months commencing in September 2017, which was renewed in September 2018. We made lease payments totaling $24,000 in 2019.

We have worked with Cloud9 Support, LLC, a company owned by James Lowe, a director of the Company. Cost of revenues provided by Cloud9 Support, LLC during 2019 totaled $97,329. Cloud9 Support, LLC also purchases materials from us. Total purchases by Cloud9 Support, LLC from us during the year ended December 31, 2019 was $392,963. Outstanding receivables from Cloud9 Support, LLC as of December 31, 2019 was $49,659. Net outstanding payables incurred for purchases of inventory and other services to Cloud9 Support, LLC as of December 31, 2019 totaled $16,402.

In October 2018, we issued a $1 million unsecured note payable from to Cloud9 Support Inc. ("Cloud9 Support"), an entity owned by James R. Lowe, a director of the Company, which originally became due April 30, 2019. The note is personally guaranteed by Bradley Nattrass, our Chief Executive Officer, and Octavio Gutierrez, a director of the Company. The loan had a one-time origination fee of $12,500. Interest accrued at the rate of 12% per annum and was paid monthly. As additional consideration for the loan, we granted Mr. Lowe (as designee of Cloud9 Support) an option to purchase 30,000 shares of our Common Stock at an exercise price of $1.20 per share, which option is exercisable for a period of five years. The due date for the note payable was extended in May 2019 to December 31, 2019 and the interest rate was decreased to 9% per year. In consideration for Cloud9 Support extending the maturity date of the note and reducing the interest rate, we issued 10,000 shares of our Common Stock to Mr. Lowe (as designee of Cloud9 Support). In December 2019, in connection with our entry into the Credit Agreement (as defined below), the due date for the note payable was extended to December 31, 2021, and we issued Mr. Lowe (as designee of Cloud9 Support) an additional 100,000 shares of Common Stock in exchange for this extension and his agreement to subordinate the loan to the obligations set forth in the Credit Agreement.

On February 21, 2020, we entered into an agreement to amend the promissory note to extend the maturity date of the promissory note 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 lender under the letter agreement by and among the Company, 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 "Credit Agreement"); or (b) which is the maturity date of 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 100,000 shares of common stock to Mr. Lowe (as designee of Cloud9 Support). The largest aggregate amount of principal outstanding during 2019 was $1,000,000. As of May 13, 2020, $1,000,000 was outstanding under the note. The amount of principal and interest paid on the note during 2019 was $0 and $136,094, respectively.

Director Independence

The standards relied upon by the Board in affirmatively determining whether a director is "independent" are those set forth in the rules of the NYSE American Company Guide, which generally provide that independent directors are persons other than the Company's executive officers or employees.

The NYSE American rules provide that members of the audit committee must also comply with the independence standards under Rule 10A-3 of the Exchange Act, which provide that a member of an audit committee of a company, other than an investment company, may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (i) accept directly or indirectly any consulting, advisory, or other compensatory fee from the Company or any subsidiary thereof, provided that, unless the rules of the national securities exchange or national securities association provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Company (provided that such compensation is not contingent in any way on continued service); or (ii) be an affiliated person of the Company or any subsidiary thereof.

In accordance with the NYSE American independence definitions, the Board also makes an affirmative determination that each potential independent director does not have any relationship that, in the Board's opinion, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

The Board, in applying the above-referenced standards, has affirmatively determined that the following directors are "independent" within the meaning of the NYSE American rules: Messrs. Dennedy, Galey and Wilks. In addition, the Board has affirmatively determined that each of Messrs. Dennedy, Wilks and Galey, who comprise the Company's Audit Committee, meet the additional independence requirements applicable to audit committee members under the NYSE American rules and Rule 10A-3 under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Fees Paid to BF Borgers CPA PC

The following table shows the aggregate fees for professional services provided to the Company by BF Borgers CPA PC for 2019 and 2018:

	2019	2018
Audit Fees	$ 135,000	$ 126,900
Audit-Related Fees	3,240	–
Tax Fees	–	5,800
All Other Fees	–	–
Total	$ 138,240	$ 132,700

Audit Fees. This category includes the audit of the Company's annual consolidated financial statements, reviews of the Company's financial statements included in the Company's Quarterly Reports on Form 10-Q, and services that are normally provided by its independent registered public accounting firm in connection with its engagements for those years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of the Company's interim financial statements.

Audit-Related Fees. This category consists of assurance and related services by its independent registered public accounting firm that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported above under "Audit Fees." The services for the fees disclosed under this category include audit-related work regarding acquisitions, divestitures, the incurrence of additional indebtedness, and debt covenant compliance.

Tax Fees. This category consists of professional services rendered by the Company's independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and statutory tax audit services and tax compliance services.

All Other Fees. This category consists of fees for other miscellaneous items.

Our Audit Committee is responsible for approving all audit, audit-related, tax and other fees. The Audit Committee pre-approves all auditing services and permitted non-audit services, including all fees and terms to be performed for us by our independent auditor at the beginning of the fiscal year. Non-audit services are reviewed and pre-approved by project at the beginning of the fiscal year. Any additional non-audit services contemplated by us after the beginning of the fiscal year are submitted to the Audit Committee Chairperson for pre-approval prior to engaging the independent auditor for such services. Such interim pre-approvals are reviewed with the full Audit Committee at its next meeting for ratification. The audit, audit-related fees, tax fees, and other fees paid to BF Borgers CPA PC with respect to 2019 and 2018 were pre-approved by the Audit Committee.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES.

The following exhibits are included with this report:

Exhibit No.	Description
4.1	Description of urban-gro, Inc.'s Common Stock. (filed herewith)
10.10*	Form of Deferred Shares Award Agreement (filed herewith)
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. (filed herewith)
10.12	Promissory Note, dated October 18, 2018, between urban-gro, Inc. and Cloud9 Support Inc. (filed herewith).
10.13	Amendment to Promissory Note, dated May 20, 2019, between urban-gro, Inc. and Cloud9 Support Inc. (filed herewith).
10.14	Subordination Agreement, dated February 25, 2020, between urban-gro, Inc. and Cloud9 Support Inc. (filed herewith)
10.15	Promissory Note, dated February 21, 2020, between urban-gro, Inc. and Cloud9 Support Inc. (filed herewith)
21.1	List of Subsidiaries (filed herewith)
23.1	Consent of BF Borgers CPA P.C. (filed herewith)
31.1	Certification of Chief Executive Officer required by Rule 13a-14(a) under the Exchange Act (filed herewith)
31.2	Certification of Chief Financial Officer required by Rule 13a-14(a) under the Exchange Act (filed herewith)
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 (filed herewith)

The following exhibits have previously been filed with the Securities and Exchange Commission on the date indicated.

Exhibit No.	Description
3.1	Articles of Incorporation filed with the Colorado Secretary of State on March 10, 2017(incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
3.2	Bylaws of Registrant (incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
3.3	Specimen Stock Certificate (incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
10.1	Letter Agreement between Edyza, Inc. and Registrant (incorporated by reference to Form S-1 Registration Statement filed on May 18, 2018)
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)
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)

Exhibit No.	Description
10.9*	urban-gro, Inc. 2019 Equity Incentive Plan (incorporated by reference to Form S-8 filed on August 27, 2019)
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

*** Denotes management contract or compensatory plan.**

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: May 18, 2020

By: /s/ Bradley Nattrass
Bradley Nattrass
Principal Executive Officer

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

In accordance with the Exchange Act, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on May 18, 2020

/s/ Bradley Nattrass
Bradley Nattrass, Director

/s/ Octavio Gutierrez
Octavio Gutierrez, Director

/s/ Richard A. Akright
Richard A. Akright, Director

/s/ Lewis O. Wilks
Lewis O. Wilks, Director

/s/ James H. Dennedy
James H. Dennedy, Director

/s/ Lance Galey
Lance Galey, Director

/s/ James Lowe
James Lowe, Director

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the shareholders 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, 2019 and 2018, the related consolidated statements of operations and comprehensive income, shareholders' deficit and cash flows for each of the two years in the period ended December 31, 2019, 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, 2019 and 2018, and the results of its operations and its cash flows each of the two years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States.

Going Concern Uncertainty

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

May 18, 2020

urban-gro Inc.
CONSOLIDATED BALANCE SHEETS

	December 31, 2019	December 31, 2018
Assets		
Current Assets		
Cash	$ 448,703	$ 1,178,852
Accounts receivable, net	1,564,969	501,191
Inventories, net	676,175	1,214,224
Related party receivable	49,658	122,356
Prepayments and advances	1,258,700	928,682
Total current assets	3,998,205	3,945,305
Non-current assets		
Property, plant, and equipment, net	165,035	441,141
Operating lease right of use assets, net	215,848	–
Investments	2,020,358	1,261,649
Goodwill	902,067	–
Other assets	106,179	96,669
Total non-current assets	3,409,487	1,799,459
Total assets	$ 7,407,692	$ 5,744,764
Liabilities		
Current liabilities		
Accounts payable	$ 3,753,862	$ 1,630,893
Accrued expenses	1,686,841	1,144,142
Related party payable	24,972	18,802
Customer deposits	2,915,406	3,298,609
Related party note payable	1,000,000	1,000,000
Notes payable	2,812,709	2,478,869
Operating lease liabilities	123,395	–
Total current liabilities	12,317,185	9,571,315
Non-current liabilities		
Operating lease liabilities	98,841	–
Total non-current liabilities	98,841	–
Total liabilities	12,416,026	9,571,315
Commitments and contingencies, Note 11		
Equity		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; 0 shares issued and outstanding as of December 31, 2019 and December 31, 2018	–	–
Common stock, $0.001 par value; 100,000,000 shares authorized; 28,209,312 and 25,229,833 shares issued and outstanding as of December 31, 2019, and December 31, 2018 respectively	28,209	25,230
Additional Paid in Capital	11,854,083	4,688,272
Accumulated deficit	(16,890,626)	(8,540,053)
Total shareholders' deficit	(5,008,334)	(3,826,551)
Total liabilities and shareholders' deficit	$ 7,407,692	$ 5,744,764

See accompanying notes to financial statements

urban-gro Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED December 31, 2019 and 2018

	For the Years Ended	
	December 31, 2019	**December 31, 2018**
Revenue	$ 24,189,803	$ 20,050,776
Cost of revenue	17,563,594	13,892,025
Gross profit	6,626,209	6,158,751
Operating expenses		
Marketing	1,016,073	992,288
General and administrative	9,207,737	7,721,221
General and administrative – amortization of broker issuing costs and broker warrants associated with convertible debentures	432,578	–
Stock-based compensation	1,830,426	1,245,826
Total operating expenses	12,486,814	9,959,335
Loss from operations	(5,860,605)	(3,800,584)
Non-operating expenses:		
Interest expense	(704,230)	(119,961)
Interest expense – amortization of warrants and conversion price associated with convertible debentures	(1,333,520)	–
Write-down of investment	(505,766)	–
Other income, net	53,548	24,672
Total non-operating expenses	(2,489,968)	(95,289)
Loss before income taxes	(8,350,573)	(3,895,873)
Income Tax benefit	–	–
Net income (loss)	$ (8,350,573)	$ (3,895,873)
Comprehensive income (loss)	$ (8,350,573)	$ (3,895,873)
Earnings (loss) per share		
Net loss per share - basic and diluted	$ (0.32)	$ (0.16)
Weighted average outstanding shares for the years ended December 31, 2019 and December 31, 2018 - basic and diluted	26,318,059	24,848,239

See accompanying notes to financial statements

urban-gro Inc.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' DEFICIT
FOR THE YEARS ENDED December 31, 2019 and 2018

	Common Stock		Additional Paid in	Retained Earnings	Total Shareholders'
	Shares	Amount	Capital	(deficits)	Deficit
Balance, December 31, 2017	**25,046,000**	**$ 25,036**	**$ 3,258,116**	**$ (4,644,180)**	**$ (1,361,028)**
Clawback of stock granted	(375,000)	(375)	375	–	–
Payment of outstanding balance for PPM	–	–	80,000	–	80,000
Stock based compensation	–	–	1,345,825	–	1,345,825
Stock Grant Program Vesting	558,833	568	(568)	–	–
Warrants	–	–	4,525	–	4,525
Net loss for year ended December 31, 2018	–	–	–	(3,895,873)	(3,895,873)
Balance, December 31, 2018	**25,229,833**	**$ 25,230**	**$ 4,688,272**	**$ (8,540,053)**	**$ (3,826,551)**

	Common Stock		Additional Paid in	Retained Earnings	Total Shareholders'
	Shares	Amount	Capital	(deficits)	Deficit
Balance, December 31, 2018	**25,229,833**	**$ 25,230**	**$ 4,688,272**	**$ (8,540,053)**	**$ (3,826,551)**
Stock based compensation	–	–	1,830,426	–	1,830,426
Stock options issued for loan term revisions	–	–	37,829	–	37,829
Stock grants issued for loan term revisions	16,000	16	31,284	–	31,300
Stock Grant Program Vesting	1,360,966	1,360	(1,360)	–	–
Stock issuance related to conversion of convertible debentures	1,102,513	1,103	2,655,934	–	2,657,037
Stock issuance related to acquisition	500,000	500	999,500	–	1,000,000
Warrants issued related to convertible debentures	–		614,041	–	614,041
Equity value of exercise price associated with convertible debentures	–		719,479	–	719,479
Broker warrants associated with issuance of convertible debentures	–		278,678	–	278,678
Net loss for year ended December 31, 2019	–	–	–	(8,350,573)	(8,350,573)
Balance, December 31, 2019	**28,209,312**	**$ 28,209**	**$ 11,854,083**	**$ (16,890,626)**	**$ (5,008,334)**

See accompanying notes to financial statements

urban-gro Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	December 31, 2019	**December 31, 2018**
Cash Flows from Operating Activities		
Net Loss	$ (8,350,573)	$ (3,895,873)
Adjustment to reconcile net loss from operations:		
Depreciation and amortization	266,476	154,136
Amortization of convertible debenture components	1,612,197	–
Stock-based compensation expense	1,830,426	1,245,826
Impairment of investment	505,766	–
Warrant Expense	–	3,394
Inventory write-offs	94,727	77,531
Bad debt expense	67,633	106,464
Gain on disposal of assets	(72,416)	–
Changes in Operating Assets and Liabilities:		
Accounts receivable	(849,355)	(73,917)
Inventory	443,322	(167,040)
Prepayments and other assets	(324,273)	(88,684)
Accounts payable and accrued expenses	2,671,838	205,667
Customer deposits	(383,203)	147,360
Net Cash Provided by (Used in) Operating Activities	**(2,487,435)**	**(2,285,136)**
Cash Flows from Investing Activities		
Purchases of investments	(1,085,975)	(861,649)
Purchases of property and equipment	(192,954)	(369,480)
Proceeds from sale of assets	121,500	–
Cash acquired in acquisition	49,742	–
Purchases of intangible assets	(40,255)	(33,674)
Net Cash Used Provided By (Used In) Investing Activities	**(1,147,942)**	**(1,264,803)**
Cash Flows from Financing Activities		
Issuance of convertible debentures	2,565,000	–
Issuance of capital stock	–	80,000
Proceeds from notes payable	970,000	1,992,000
Repayment of notes payable	(629,772)	–
Proceeds from related party loan	–	1,000,000
Net Cash Provided by (Used In) Financing Activities	**2,905,228**	**3,072,000**
Net Increase (Decrease) in Cash	**(730,149)**	**(477,939)**
Cash at Beginning of Period	**1,178,852**	**1,656,791**
Cash at End of Period	**448,703**	**1,178,852**
Supplemental Cash Flow Information:		
Interest Paid	612,138	119,961
Income Tax Paid	–	–
Supplemental disclosure of non-cash investing and financing activities:		
Convertible debentures and accrued interest converted into common stock	2,657,037	–
Stock issuance related to acquisition	1,000,000	–
Common stock retired	–	375
Operating lease right of use asset	326,092	–

See accompanying notes to financial statements

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

Organization and Acquisitions

urban-gro, Inc. ("we," "us," our" or the "Company") is a leading engineering design services company that integrates complex environmental equipment systems to create high performance indoor cultivation facilities for the global commercial horticulture market. Our custom tailored, plant-centric approach to design, procurement, and integration provides a single point of accountability across all aspects of indoor cultivation operations. Our solution offers functionality that helps customers manage the entire cultivation lifecycle, from facility engineering and design to operation and day-to-day management. We offer a full range of custom services that are integrated with select cultivation equipment and product solutions, which we primarily source from third party technology and manufacturing partners but also develop in-house.

Our service offerings include full facility programming, engineering and design services, start-up commissioning services, facility optimization services and IPM planning and strategy services. Complementing these services, we work with customers to source an integrated suite of select cultivation equipment systems and crop management products, which include: (1) environmental controls, fertigation, and irrigation distribution systems; (2) freshwater, wastewater, and condensation treatment systems; (3) light emitting diode ("LED"), high-pressure sodium ("HPS") and ceramic metal halide ("CMH") lighting systems; (4) rolltop, multi-tier, and automated container benching systems; (5) odor mitigation & microbial reduction systems; (6) air flow systems; (7) industrial spray applicators; (8) pesticides and bio-controls; (9) plant nutrition products; (10) substrate and coco bag solutions; and (11) our Soleil® technology data analytics platform that includes wireless environmental & substrate sensing and remote monitoring and support.

In June 2018, the Company formed urban-gro Canada Technologies, Inc. as a wholly owned Canadian subsidiary which it currently utilizes for its Canadian sales operations.

Effective March 7, 2019, the Company acquired 100% of the stock of Impact Engineering, Inc. (d/b/a Grow2Guys) ("Impact"), a provider of mechanical electrical and plumbing ("MEP") engineering services predominantly focused on the cannabis industry. Management believes the acquisition of Impact will improve the Company's ability to better serve its current and future customer base by expanding on the fully integrated products and services offered by the Company. The Company issued 500,000 shares of Common Stock ("Common Stock") valued at $2.00 per share to effect the acquisition of Impact. The Company has initially accounted for the acquisition of Impact as follows:

Purchase Price	$	1,000,000
Allocation of Purchase Price:		
Cash	$	49,742
Accounts receivable, net	$	93,811
Goodwill	$	902,067
Accrued expenses	$	45,620

Basis of Presentation

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles ("GAAP").

Liquidity and Going Concern

Since inception, the Company has incurred significant operating losses and has funded its operations primarily through issuance of equity securities, debt, and operating revenue. As of December 31, 2019, the Company had an accumulated deficit of $16,890,626, a working capital deficit of $7,318,980, and negative stockholders' equity of $5,008,334. These facts and conditions raise substantial doubt about the Company's ability to continue as a going concern, within one year after the date that the financial statements are issued. The Company continually evaluates opportunities to raise equity and debt financing as well as implementing cost reduction and revenue enhancing measures that will allow it to increase profitability and continue operations. There can, however, be no assurances that the Company will be able to raise equity or debt financing in sufficient amounts, when and if needed, on acceptable terms or at all, nor can there be any assurances that the Company will be able to implement cost reduction and revenue enhancing measures that will enable the Company to achieve profitable operations going forward. The accompanying financial statements have been prepared on a going concern basis.

Pursuant to Accounting Standards Codification ("ASC") 205-40,*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* we assess going concern uncertainty for our consolidated financial statements to determine if we have sufficient cash and cash equivalents on hand and working capital to operate for a period of at least one year from the date the consolidated financial statements are issued or are available to be issued. As part of this assessment, based on conditions that are known and reasonably knowable to us, we will consider various scenarios, forecasts, projections, and estimates, and make certain key assumptions, including the timing and nature of projected cash expenditures or programs, and our ability to delay or curtail those expenditures or programs, among other factors, if necessary. It is probable that management's plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are 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 useful lives and potential impairment of long-lived assets and goodwill, inventory write offs, allowance for deferred tax assets, and allowance for bad debt.

Basis of Presentation and Principles of Consolidation

These consolidated financial statements are presented in United States dollars and they include the accounts of urban-gro, Inc. and its wholly-owned subsidiaries. The financial results of Impact have been included in the Company's consolidated financial statements from the date of acquisition on March 7, 2019 and all intercompany transactions have been eliminated.

Recently Issued Accounting Pronouncements

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

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's 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, 2019 and December 31, 2018 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, 2019 and 2018.

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, 2019 and 2018, 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, 2019.

Accounts Receivable, Net

Trade accounts receivables are carried at the original invoiced amounts less an allowance for doubtful accounts. As of December 31, 2019 and 2018, the balance of allowance for doubtful accounts was $18,920. 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, 2019 and 2018 was $67,633 and $106,464, respectively.

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 and Equipment

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, 2019 and 2018.

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 terms of the first lease are 24 months commencing on September 1, 2018 and ending on August 31, 2020. The terms of the second lease are 28 months commencing on September 1, 2019 and ending December 31, 2021. Operating lease right of use asset costs incurred in 2019 were $123,563.

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 is determined based on the closing price of the common stock on the date of the transaction, and the fair value of warrants, if any, is determined using the Black-Scholes option-pricing model. Convertible notes are subsequently carried at amortized cost. The fair value of the warrants is recorded as additional paid-in capital, with a corresponding as a debt discount from the face amount of the convertible note. Each convertible note is 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. Beneficial conversion features are 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, are amortized to interest expense, using the effective interest method, over the terms of the related convertible notes. Beneficial conversion features that are contingent upon the occurrence of a future event are recorded when the contingency is resolved.

Intangible Assets

The Company’s intangible assets, consisting of legal fees for application of patents and trademarks and license fees paid for inspection services, are recorded at cost. Patents and trademarks, once approved, will be amortized using the straight-line method over an estimated life, generally 5 years for patents and 10 to 20 years for trademarks. License fees are amortized over 10 years. Intangible assets are included in “other assets” on the balance sheets. The net balance of intangible assets for December 31, 2019 and 2018 was $86,151 and $63,755, respectively. Amortization expense totaled $1,879 and $974 for the years ended December 31, 2019 and 2018, respectively.

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 31st 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 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 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.

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 service and product revenues arise from contracts with customers. Service revenues include full facility programming, engineering and design services, start-up commissioning services, facility optimization services and IPM planning and strategy services. Product revenues include an integrated suite of select cultivation equipment systems and crop management products. We enter into separate contracts for the service and product revenues we provide to our customers so 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.

Revenues for services and products for the year ended December 31, 2019 were $3,167,237 and 21,022,566, respectively. Revenues for services and products for the year ended December 31, 2018 were $928,063 and $19,122,713, respectively.

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 $3,298,609 at December 31, 2018, $2,678,565 was recognized as revenue in the year ended December 31, 2019. At December 31, 2017, the entire customer deposit balance of $3,151,250 was recognized as revenue in the year ended December 31, 2018.

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, 2019 and 2018 was $679,911 and $490,526, respectively.

Advertising Costs

The Company expenses advertisings 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, 2019 and 2018 was $159,728 and $153,878, respectively.

Warrants

The Company accounts for its warrants issued in accordance with the GAAP accounting guidance under ASC 480, "Distinguishing Liabilities from Equity". The Company estimated 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 issue shares of its common stock 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. The Company also estimates forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from its estimates.

Income Taxes

The Company files income federal tax returns in the United States and Canada and state and local tax return 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

In February 2016, the FASB issued an Accounting Standards Update ("ASU") amending the accounting for leases. The new guidance requires the recognition of lease assets and liabilities for operating leases with terms of more than 12 months, in addition to those currently recorded, on the Company's consolidated balance sheets. Presentation of leases within the consolidated statements of operations and comprehensive loss and consolidated cash flows will be generally consistent with the prior lease accounting guidance. The ASU was effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The Company adopted the ASU effective January 1, 2019 under the modified retrospective method with respect to lease contracts in effect as of the adoption date. The adoption of the ASU increased our assets and liabilities by $326,095 in 2019 due to the recognition of right of use assets and lease liabilities with respect to operating leases.

NOTE 3 – RELATED PARTY TRANSACTIONS

In October 2018, the Company received a $1,000,000, unsecured, interest only, promissory note (the "Promissory Note") from Cloud9 Support Inc. ("Cloud9"), an entity owned 100% by James Lowe, a director of the Company. The Promissory Note was originally due April 30, 2019. The Promissory Note is personally guaranteed by the Company's two majority shareholders, Bradley Nattrass, who is the Company's Chairman and Chief Executive Officer, and Octavio Gutierrez, a director and former officer of the Company. The Promissory Note includes additional consideration of 30,000 options at an exercise price of $1.20 per share. Under the initial terms of the Promissory Note, the interest rate was 12.0% per year with interest payable monthly. In May 2019, the due date of the Promissory Note was extended to December 31, 2019 and the interest rate was decreased to 9.0% per year payable monthly. In connection with the execution of the Credit Agreement (see Note 17), on February 21, 2020, the Company entered into an agreement to amend the Promissory Note (the "Amending Agreement"). Pursuant to the Amending Agreement, Cloud9 agreed to extend the maturity date of the Promissory Note 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 Lender under the Credit Agreement; or (b) which is the Maturity Date of the Credit Agreement.

The Company purchases some cultivation products from Bravo Lighting, LLC (d/b/a Bravo Enterprises) ("Bravo") and Enviro-Glo, LLC ("Enviro-Glo"), manufacturers and distributors of commercial building lighting and other product solutions with common control by the Company's two major shareholders, Bradley Nattrass and Octavio Gutierrez. Purchases from Bravo and Enviro-Glo totaled $45,129 and $276,443 for the years ended 2019 and 2018, respectively. Outstanding receivables from Bravo and Enviro-Glo for the years ended 2019 and 2018 totaled $0 and $43,120, respectively. Net outstanding payables incurred for purchases of inventory and other services to Bravo and Enviro-Glo as of December 31, 2019 and 2018, was $8,570 and $5,562, respectively.

The Company has purchased goods from Cloud 9 Support, LLC ("Cloud 9"), a company owned by James Lowe, a director, shareholder, and debt holder. Purchases from Cloud 9 were $97,329 and $84,746 during the years ended 2019 and 2018, respectively. Cloud 9 also purchases materials from the Company for use with their customers. Total sales to Cloud 9 from the Company were $392,963 and $273,760 during the years ended 2019 and 2018, respectively. Outstanding receivables from Cloud 9 as of December 31, 2019 and 2018 totaled $49,659 and $79,235, respectively. Net outstanding payables for purchases of inventory and other services to Cloud 9 as of December 31, 2019 and 2018, totaled $16,402 and $13,240, respectively.

NOTE 4 – PREPAYMENTS & ADVANCES

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

	December 31, 2019	December 31, 2018
Vendor Prepayments	$ 1,070,788	$ 776,478
Prepaid Services and Fees	187,912	152,204
Prepayments and Advances	$ 1,258,700	$ 928,682

NOTE 5 - PROPERTY PLANT & EQUIPMENT, NET

Property Plant and Equipment balances are summarized as follows:

	December 31, 2019	December 31, 2018
Computers & Technology Equip	$ 87,300	$ 61,910
Furniture and Fixtures	42,518	30,162
Leasehold Improvements	164,072	143,215
Vehicles	57,414	132,875
Software	142,721	233,783
R&D Assets	3,031	84,031
Other Equipment	38,355	65,140
Accumulated depreciation	(370,376)	(309,975)
Property plant and equipment, net	$ 165,035	$ 441,141

Depreciation expense for the years ended December 31, 2019 and 2018 totaled $264,597 and $153,162, respectively.

NOTE 6 – INVESTMENTS

The changes in the components of the Investments for the years ended December 31, 2019 and 2018 are summarized as follows:

	Year Ended December 31, 2019		
	Edyza	TGH	Total
Beginning Balances as of 1/1/2019	$ 812,883	$ 448,766	$ 1,261,649
Purchase of additional shares under SPOA	897,475	–	897,475
Initial purchase of Membership interest	–	367,000	367,000
Additional Membership interest purchased with first option	–	–	–
Impairment of investment	–	(505,766)	(505,766)
Legal fees	–	–	–
Ending Balances as of 12/31/2019	$ 1,710,358	$ 310,000	$ 2,020,358

	Year Ended December 31, 2018		
	Edyza	TGH	Total
Beginning Balances as of 1/1/2018	$ 400,000	$ –	$ 400,000
Purchase of additional shares under SPOA, including $75,000 reflected in Accrued Expenses	400,000	–	400,000
Initial purchase of Membership Interest	–	125,000	125,000
Additional Membership interest purchased with first option	–	150,000	150,000
Additional Membership interest purchased with second option	–	158,000	158,000
Legal fees	12,883	15,766	28,649
Ending Balances as of 12/31/2018	$ 812,883	$ 448,766	$ 1,261,649

Edyza

In August 2017, the Company entered into a Simple Agreement for Future Equity ("SAFE") with Edyza, Inc. ("Edyza"), a developer of wireless sensor technology, to provide the Company with the right to obtain an ownership interest in Edyza to be issued when Edyza engaged in a priced round of investment. The Company paid Edyza $400,000 for the SAFE.

In August 2018, the Company and Edyza entered into a Stock Purchase and Option Agreement ("SPOA") whereby the Company and Edyza agreed to terminate the SAFE in exchange for Edyza issuing the Company 442,685 shares of Edyza Common Stock at $0.903577 per share, or $400,000 in the aggregate. In connection with the SPOA, the Company agreed to pay Edyza an additional $400,000 in six monthly installments ($50,000 a month in August and September 2018 and $75,000 a month from October 2018 thru January 2019) in exchange for Edyza issuing the Company an additional 442,685 shares of Edyza Common Stock at $0.903577 per share. As of December 31, 2018, the Company had paid $325,000 of the additional $400,000 to Edyza under this installment payment plan. The remaining installment payment of $75,000 is included in Accrued Expenses on the Company's Balance Sheet as of December 31, 2018 and was paid to Edyza in January 2019. 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.

TGH

In February 2018, the Company entered into a Membership Interest and Purchase Agreement ("MIPA") with Total Grow Holdings, LLC (d/b/a/ Total Grow Control, LLC) ("TGH"), a developer of environmental controls and fertigation/irrigation distribution products, to purchase 5% of TGH's membership interests on a fully diluted basis for $125,000. The MIPA also contained two separate options for the Company to purchase additional membership interests in TGH and a purchase right for the Company to acquire all of the outstanding membership interests in TGH. The first option was exercisable from July 1, 2018 thru August 31, 2018 and allowed the Company to acquire an additional 5% of TGH's membership interests on a fully diluted basis for $150,000. The second option was initially exercisable from February 15, 2019 thru May 15, 2019 and allowed the Company to acquire an additional 15% of TGH's membership interests on a fully diluted basis for $600,000. The purchase right is exercisable from May 15, 2019 thru February 15, 2020 and allows the Company to acquire all of the outstanding membership interests in TGH based on a total valuation of TGH of $7,500,000.

In July 2018, the Company exercised its initial option and purchased an additional 5% of TGH's fully diluted membership interests for $150,000. As of December 31, 2018, the Company owned 10% of the membership interests in TGH.

In January 2019, the Company and TGH renegotiated the terms of the second option, accelerating the beginning of the exercise period to January 2019 from February 15, 2019, and reducing the purchase price for the additional 15% of TGH's membership interests on a fully diluted basis from $600,000 to $525,000. In January 2019, the Company elected to exercise this renegotiated second option and purchased an additional 15% of TGH's fully diluted membership interests for $525,000.

Prior to December 31, 2018, the Company had advanced TGH $158,000 for equipment orders the Company had placed with TGH. TGH agreed to apply this $158,000 in equipment advances toward the second option membership interest purchase price of $525,000, and the Company has reflected this $158,000 as an investment in TGH as of December 31, 2018. The remaining balance of $367,000 for the second option membership interest was due in installments of $35,000 every two weeks through May 2019. As of March 31, 2019, the Company had made total payments of $336,000. The Company capitalized an additional $15,766 in legal fees associated with the purchases of the TGH membership interests. As of December 31, 2018, the Company's fully diluted ownership interest in TGH was less than 20% and, the Company measured these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. As of December 31, 2018, the Company determined that no impairment of its investment in TGH was necessary given the recent valuations and no change in qualitative factors.

The Company also made the remaining $367,000 in additional payments to TGH under the renegotiated agreement reached in January 2019 to acquire additional Membership Interests in TGH. When the payment plan was completed in May 2019, the Company was issued the additional ownership interest in TGH resulting in the Company owning 24% of TGH's membership interest. The Company believed that this ownership interest in TGH resulted in the Company being able to exercise significant influence over TGH and that the Company should begin to account for its investment in TGH under the equity method beginning in July 2019 since the operations of TGH were insignificant in June 2019.

In September 2019, the Company decided that it should remain independent with regard to any investments in environmental controls and fertigation/irrigation distribution entities and decided it should divest itself of the ownership interest in TGH. The Company entered into preliminary negotiations with TGH to sell its ownership interest in TGH back to TGH. In connection with those negotiations, the Company determined it should not record any equity interests in TGH and the Company recorded a $505,766 write-down of its investment in TGH to an amount the Company anticipates receiving in proceeds from the sale of the TGH investment back to TGH.

In January 2020, the Company and TGH entered into an agreement whereby TGH agreed to purchase the Company's remaining investment in TGH in consideration for a short-term note due April 24, 2020 in the amount of $200,000 and a long-term note due in a lump sum on January 27, 2025 in the amount of $110,000 with interest of 4.0% payable annually in arrears. Per the terms of the agreement, the Company retains its ownership interest in TGH until the $200,000 short-term note is repaid. As of the date of this report, TGH has not made any payments on the $200,000 short-term note and the Company has retained its ownership interest in TGH. The Company does not have the ability to exert significant influence on TGH and therefore has recorded the investment at its adjusted cost basis.

NOTE 7 – OTHER ASSETS

Included in other assets are the following intangible assets:

- Patents, consisting of legal costs paid to third parties to establish a patent, which are capitalized until such time that the patents are approved and issued or rejected. If approved, capitalized costs are amortized using the straight-line method over the estimated lives of the patents, generally five years. The Company has two issued patents as of December 31, 2019 and had no issued patents at December 31, 2018.
- License fees, which consist of fees paid to have the Company's products certified by a nationally recognized organization. License fees are amortized over ten years.

The net balance of intangible assets as of December 31, 2019 and December 31, 2018 was $86,151 and $63,755, respectively. Amortization expense totaled $1,879 and $974 for the years ended December 31, 2019 and 2018, respectively.

NOTE 8 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	December 31, 2019	December 31, 2018
Accrued operating expenses	$ 854,056	$ 240,941
Accrued wages and related expenses	487,327	490,961
Accrued interest expense	–	10,958
Accrued sales tax payable	345,458	401,282
	$ 1,686,841	$ 1,144,142

Accrued sales tax payable is comprised of prior period sales tax payable to various states for 2015 through 2019. The Company has set up payment plans with the various taxing agencies to relieve the obligation. The payment plans require monthly payments in various amounts over a period of 12 months.

NOTE 9 – NOTES PAYABLE

Notes payable balances totaled $2,812,709 and $2,478,869 at December 31, 2019 and December 31, 2018, respectively. Interest expense incurred on the notes payable was $596,075 and $119,961 for the years ended December 31, 2019 and 2018, respectively.

The following is a summary of notes payable:

	December 31, 2019	December 31, 2018
Unsecured, interest only, note payable with Chris Parkes originally due December 31, 2018. Interest payments due monthly at an annual rate of 20.4%. Note payable revised in December 2018 extending the maturity date to March 31, 2020. During August 2019, the maturity date was extended to March 31, 2020 and the interest rate was decreased to an annual rate of 9%. In consideration for extending the due date of the Note and reducing the interest rate, the Company issued the Holder 3,000 shares of Common Stock. Beginning of March 31, 2020, the Company has made monthly payments in the amount of $10,000.	$ 80,000	$ 80,000
Unsecured, interest only, note payable with David Parkes originally due December 31, 2018. Interest payments due monthly at an annual rate of 18.0%. Note payable revised in December 2018 extending the maturity date to March 31, 2020. During August 2019, the maturity date was extended to March 31, 2020 and the interest rate was decreased to an annual rate of 9%. In consideration for extending the due date of the Note and reducing the interest rate, the Company issued the Holder 3,000 shares of Common Stock. Beginning of March 31, 2020, the Company has made monthly payments in the amount of $10,000	100,000	100,000
Unsecured, interest only, note payable with Michael S. Bank originally due April 30, 2019. Interest at 19.8% per year is paid twice per month. The note contains a demand re-payment provision that can be executed by Mr. Bank at any time by providing a one-time notice. The Company may re-pay any part or the entire principal sum at any time with penalty and abatement of interest expense from date of early payment. The note includes six thousand warrants, each exercisable to purchase one share of the Company's Common Stock at a price of $1.00 per share. In March 2019, the Company repaid $35,000 of the principal and extended the maturity date to April 30, 2019. The note was repaid in full on April 30, 2019.	–	298,869
Note payable with Hydrofarm Holdings Group, Inc. (“Hydrofarm”), secured by all currently existing and future assets. Interest accrues at 8.0% per year and is paid quarterly. The note matures on the earlier of: (a) 90 days’ notice from Hydrofarm; (b) acceleration of the note payable due to the Company being in default; or (c) December 2023.	2,000,000	2,000,000
Secured agreement to sell future receivables to GCF Resources, LLC, net of $30,000 in closing fees. The agreement requires 32 weekly payments of $42,190 totaling $1,350,000. The agreement matures on May 7, 2020 but is repayable prior to maturity for less than the $1,350,000 in total payments.	632,709	–
Total	2,812,709	2,478,869
Less current maturities	(2,812,709)	(2,478,869)
Long term	$ –	$ –

Effective November 20, 2018, the Company entered into a letter of intent ("LOI") with Hydrofarm Holdings Group, Inc. ("Hydrofarm") whereby Hydrofarm agreed to acquire all of the Company's issued and outstanding common stock (the "Merger"). Pursuant to the terms of the LOI, Hydrofarm extended to the Company a secured, interest only note in the principal amount of $2 million. The note was secured by all of our currently existing and future assets. In connection with the execution of the Credit Agreement (see Note 17), the Company repaid the note and the Merger was abandoned.

NOTE 10 – UNIT OFFERING

Effective January 9, 2019, the Company executed a letter agreement with 4Front Capital Partners, Inc., Toronto, Canada ("4Front"), whereby 4Front agreed to act as the Company's exclusive placement agent in connection with a private placement offering. Beginning in March 2019, 4Front initiated an offering (the "Offering") of up to $6,000,000 from the sale of Units, with each Unit consisting of a $1,000 Convertible Debenture (the "Debentures" or a "Debenture") and Common Stock Purchase Warrants (the "Warrants") exercisable to purchase 207.46 shares of Common Stock at $3.00 per share for a period of two years from the purchase date. The Debentures are due May 31, 2021 and bear interest at 8%, compounded annually, with interest due at maturity. The Debentures, plus any accrued but unpaid interest, will automatically convert for no additional consideration into Common Shares at a conversion price of $2.41 per share upon the occurrence of a liquidity event. A liquidity event means: (a) the date on which the Company's Common Stock is listed for trading on a recognized stock exchange in either Canada or the United States; and (b) securities issued pursuant to the Offering, including the Common Stock underlying both the conversion right included in the Debentures and underlying the Warrants, have been duly qualified by a registration statement in the United States, allowing the securities to be freely tradeable pursuant to the U.S. securities laws, or a prospectus in Canada. The Company filed a registration statement with the SEC on September 17, 2019, to register the securities in connection with the Offering. That registration statement was declared effective October 16, 2019, triggering the liquidity event indicated above and the $2,565,000 in Debentures plus $92,037 in accrued interest were converted into 1,102,513 Common Shares at $2.41 per share. The Warrants contain a mandatory exercise provision if the weighted average share price of the Company's Common Stock exceeds $5.00 per share for a period of five consecutive days.

NOTE 11 – OPERATING LEASE LIABILITIES & COMMITMENTS AND CONTINGENCIES

The Company has two operating leases with an imputed annual interest rate of 8%. The terms of the first lease are 24 months commencing on September 1, 2018 and ending on August 31, 2020. The terms of the second lease are 28 months commencing on September 1, 2019 and ending December 31, 2021.

The following is a summary of operating lease liabilities:

	December 31, 2019	December 31, 2018
Operating lease liabilities related to right of use assets.	$ 222,236	$ –
Less current portion	(123,395)	–
Long term	$ 98,841	$ –

The following is a schedule showing future minimum lease payments:

Year ending December 31,	Total Minimum Lease Payments
2020	177,688
2021	91,688

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, 2019, one vendor composed 24% of total purchases. During the year ended December 31, 2018, two unrelated vendors composed 18% and 11% of total purchases.

The Company's primary suppliers of automated environmental controls and fertigation represented 3% and 46% of total accounts payable outstanding as of December 31, 2019 and 2018, respectively.

During the year ended December 31, 2019, one customer represented 21% of total revenue. During the year ended December 31, 2018, one customer represented 14% of total revenue. At December 31, 2019, one customer represented 15% and another represented 11% of total outstanding accounts receivables. At December 31, 2018, one customer represented 19% and another represented 13% of total outstanding receivables.

Coronavirus Pandemic

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in Wuhan, China. In January 2020, this coronavirus spread to other countries, including the United States, and efforts to contain the spread of this coronavirus intensified. In March 2020, the World Health Organization declared the outbreak of the coronavirus a pandemic. We are a business that supplies other Essential Businesses with support and supplies necessary to operate and we therefore are an Essential Business and allowed to continue operating under Stay-At-Home Orders issued by many states and cities. However, the extent to which the coronavirus impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions to contain the coronavirus or treat its impact. The outbreak and any preventative or protective actions that governments or we may take in respect of this coronavirus may result in a period of business disruption, reduced customer business and reduced operations. Any resulting financial impact cannot be reasonably estimated at this time but may materially affect our business, financial condition, results of operations, and cash flows. Effects from the COVID-19 pandemic began in the latter portion of the first quarter of 2020; therefore, there was no impact to our 2019 results of operations, financial condition and cash flows.

NOTE 13 – STOCK-BASED COMPENSATION

Stock-based compensation expense for the years ended December 31, 2019 and 2018 was $1,830,426 and $1,245,826, respectively based on the vesting schedule of the stock grants and options. During the year ended December 31, 2019, 1,361,966 shares vested and were issued to employees. No cash flow affects 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 3,000,000 shares of common stock. 1,995,499 options have been awarded under the Plan as of December 31, 2019 and 1,259,000 options were awarded as of December 31, 2018.

In May 2019, the Company adopted a new equity incentive plan, authorizing an aggregate of 3,500,000 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 $0.90, the remaining contractual term of the options of 10 years, risk-free interest rate of 2.75% and expected volatility of the price of the underlying common stock of 100%. There is a moderate degree of subjectivity involved when using option pricing models to estimate the options and the assumptions used in the Black Scholes option-pricing model are moderately judgmental. Stock options and stock grants are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance.

The following schedule shows stock grant activity for the year ended December 31, 2019:

Grants outstanding as of December 31, 2018	1,802,667
Grants awarded	41,800
Forfeiture/Cancelled	(70,000)
Grants vested	(1,361,966)
Grants outstanding as of December 31, 2019	412,501

The following table summarizes stock grant vesting periods.

Number of Shares	Unrecognized stock compensation expense	Year Ending December 31,
264,167	$ 142,552	2020
148,334	34,775	2021
412,501	$ 177,327	

The following schedule shows stock option activity for the year ended December 31, 2019.

	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Stock options outstanding as of December 31, 2018	1,184,000	9.68	$ 1.15
Issued	736,499	9.20	$ 1.38
Exercised	–	–	–
Expired	218,332	9.12	$ 1.33
Stock options outstanding at December 31, 2019	1,702,167	9.21	$ 1.21
Stock options exercisable at December 31, 2019	703,538	8.89	$ 1.17

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

Number of Shares	Unrecognized stock compensation expense	Year Ending December 31,
540,998	$ 359,521	2020
408,964	120,015	2021
48,667	10,400	2022
998,629	$ 489,936	

NOTE 14 – SHAREHOLDERS' EQUITY

In 2018, an executive left the Company and returned 375,000 common shares as part of the related separation agreement. The Company retired the shares and reduced its issued and outstanding stock by 375,000 shares.

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 determined the valuation allowances are established when management determines is more likely than not that some portion or all of the deferred tax asset will not be realized.

The Company files income federal tax returns in the United States and Canada and state and local tax return in applicable jurisdictions

The Company has experienced substantial losses for both book and tax purposes since inception and has no tax provision for the years ended December 31, 2019 and 2018. The potential future recovery of any tax assets that the Company may be entitled to due to these accumulated losses is uncertain and these tax assets are fully reserved based on management's current estimates.

The Company's estimated operating loss carryforwards and expiration dates for tax purposes are as follows:

2016 - $1,618,386 expiring in 2036
2017 - $2,182,354 expiring in 2037
2018 - $3,060,443 no expiration
2019 - $6,819,954 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 tax returns since inception are subject to examination by taxing jurisdictions in the United States and Canada.

NOTE 16 – WARRANTS

The following table shows warrant activity for the years ended December 31, 2019 and 2018.

	December 31, 2019	
	Number of shares	**Weighted Average Exercise Price**
Warrants outstanding as of December 31, 2018	6,000	$ 1.00
Warrants issued in connection with convertible debenture offering (see Note 10):		
Issued to convertible debenture holders	532,134	$ 3.00
Issued to 4Front as part of compensation	153,900	$ 2.41
Warrants outstanding as of December 31, 2019	692,034	$ 2.88
Warrants exercisable as of December 31, 2019	692,034	$ 2.88

The warrants issued to convertible debenture holders expire June 24, 2021. The warrants issued to 4Front as part of compensation expire May 31, 2021. Warrants issued to Mr. Lowe in 2018 expire March 31, 2023. The aggregate intrinsic value of the warrants outstanding and exercisable at December 31, 2019 is $0.

NOTE 17 – SUBSEQUENT EVENTS

Credit Agreement

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 Engineering, Inc., as guarantors, the lenders party thereto (the "Lenders"), and Bridging Finance Inc., as administrative agent for the Lenders (the "Agent"). The Credit Agreement, which is denominated in Canadian dollars (C$), is 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 may 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 final maturity date of the Facilities will be 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 "Maturity Date"). The Facilities will bear 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 will be due and payable monthly in arrears, on the last business day of each month, and on the Maturity Date.

The Revolving Facility may be borrowed and re-borrowed on a revolving basis by us during the term of the Facilities, provided that borrowings under the Revolving Facility will be 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 may be prepaid in part or in full without a penalty at any time during the term of the Facilities, and the Term Loan may be prepaid in full or in part without penalty subject to 60 days prior notice in each case subject to certain customary conditions. As of April 30, 2020, C$0.4 million ($0.3 million) of the Revolving Facility was available for future borrowings.

The Company utilized a portion of the proceeds from the Term Loan to refinance existing indebtedness, including a $2.0 million loan with Hydrofarm. The Company terminated the Hydrofarm loan concurrently with the closing of the transactions contemplated by the Credit Agreement. Remaining proceeds from the Facilities are expected to be used (i) to pay down existing debt obligations and (ii) for general working capital purposes.

The obligations of the Company under the Facilities will be secured on a first lien basis (subject to certain permitted liens as set forth in the Credit Agreement) by substantially all of the assets of the Company and certain wholly-owned subsidiaries of the Company, as well as a limited recourse personal guarantee of Bradley Nattrass, the Chief Executive Officer of the Company.

The Credit Agreement also contains customary provisions, representations, warranties and events of default for facilities of this nature and affirmative and negative covenants, including without limitation, covenants relating to maintenance of collateral, reorganization and change of control transactions, creation of liens and incurrence of indebtedness.

Amendment of Promissory Note and Subordination Agreement

In connection with the execution of the Credit Agreement, the Company entered into an agreement to amend the promissory note (the "Promissory Note") dated October 18, 2018, as amended on May 20, 2019, between the Company and Cloud9 Support Inc., an entity owned 100% by James Lowe, a director of the Company (the "Amending Agreement"). Pursuant to the Amending Agreement, Mr. Lowe agreed to extend the maturity date of the promissory note 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 Lender under the Credit Agreement; or (b) which is the Maturity Date of the Credit Agreement.

EXHIBIT 4.1

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of December 31, 2019, urban-gro, Inc. (the "Company," "we," "us," and "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, $0.001 par value per share (the "Common Stock").

Description of Capital Stock

The following summary of our capital stock does not purport to be complete and is subject to and qualified in its entirety by reference to our Articles of Incorporation (the "Articles of Incorporation"), our Bylaws (the "Bylaws"), and the Colorado Business Corporation Act ("CBCA"). Copies of our Articles of Incorporation and Bylaws have been filed with the Securities and Exchange Commission (the "SEC") as Exhibits 3.1 and 3.2, respectively, to our Annual Report on Form 10-K.

Authorized Capital Stock

Under the Articles of Incorporation, our authorized capital stock consists of:

- one hundred million (100,000,000) shares of Common Stock, and
- ten million (10,000,000) shares of preferred stock, par value $0.10 per share (the "Preferred Stock").

As of December 31, 2019, we had approximately 28,209,312 shares of Common Stock outstanding and no shares of Preferred Stock outstanding.

Common Stock

The holders of Common Stock are entitled to one vote for each share held on all matters submitted to a vote of shareholders. Holders of Common Stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors of the Company (the "Board") out of funds legally available therefor, subject to any preferential dividend rights of outstanding Preferred Stock, which may be authorized and issued in the future. Upon a liquidation, dissolution or winding up of our Company the holders of Common Stock are entitled to receive ratably the net assets available after the payment of all debts and other liabilities, and subject further only to the prior rights of any outstanding Preferred Stock which may be authorized and issued in the future. The holders of Common Stock have no preemptive, subscription, redemption or conversion rights. The outstanding shares of Common Stock are fully paid and non-assessable. Cumulative voting in the election of directors is not permitted and the holders of a majority of the number of outstanding shares will be in a position to control the election of directors at a general shareholder meeting and may elect all of the directors standing for election. Except as otherwise provided for in the Bylaws or the CBCA, provisions of the Articles of Incorporation relating to the rights of holders of Common Stock may be amended by a majority of the votes cast.

Preferred Stock

The Preferred Stock is entitled to preference over the Common Stock with respect to the distribution of assets of our Company in the event of liquidation, dissolution, or winding-up of our Company, whether voluntarily or involuntarily, or in the event of the any other distribution of our assets, among our shareholders for the purposes of winding-up affairs. The authorized but unissued shares of Preferred Stock may be divided into and issued in designated series from time to time by one or more resolutions adopted by the Board. The Board, in their sole discretion, have the power to determine the relative powers, preferences, and rights of each series of Preferred Stock.

Certain Provisions of the Articles of Incorporation and Bylaws

The Articles of Incorporation and Bylaws of the Company contain certain provisions that may delay, defer or prevent a change in control of the Company.

Authorized but Unissued Shares

Our authorized but unissued shares of Common Stock and Preferred Stock are available for future issuances without shareholder approval and could be utilized for a variety of corporate purposes. 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

Vacancies and Removal of Directors

Our Bylaws provide that directors may be removed in the manner provided by the CBCA, which, among other things, states that a director may be removed only if the number of votes cast to remove the director would be sufficient to elect the director at a meeting to elect directors. The number of directors of the corporation shall be fixed from time to time by the board of directors, but in no instance shall there be less than one director or that number otherwise required by law and no decrease in the number of directors shall have the effect of shortening the term of any incumbent director. Any vacancy on the board of directors may be filled by the affirmative vote of a majority of all the directors remaining in office.

Special Meetings

Our Articles of Incorporation and Bylaws provide that special meetings of our shareholders may be called only by the Board, the president or shareholders representing at least ten percent of all the votes entitled to be case on any issue proposed to be considered at the meeting.

Advance Notice Requirement

Our Bylaws set forth advance notice procedures with regard to annual and special shareholder meetings. These procedures provide that notice of any shareholder meeting shall be given not less than ten nor more than sixty days before the date of the meeting, except (i) if the number of authorized shares is to be increased at the meeting, at last thirty days' notice shall be given, or (ii) any other longer notice period is required by the CBCA. In addition, the notice must contain a description of the purpose of the meeting in certain cases described in the Bylaws for annual meetings and in all cases for special meetings.

Our Bylaws also set forth advance notice procedures with regard to special meetings of the Board. Notice of the date, time and place of any special meeting of the Board shall be given to each director at least two days prior to the meeting by written notice.

Limitation on Liability and Indemnification of Directors and Officers

Our Articles of Incorporation and Bylaws provide that subject to certain requirements the Company shall indemnify any directors or officers against reasonably incurred expenses (including attorneys' fees), judgments, penalties, fines (including any excise tax assessed with respect to an employee benefit plan) and amounts paid in settlement reasonably incurred by him in connection with such action, suit or proceeding. In addition, our Bylaws 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 the Bylaws or Colorado law would permit indemnification.

EXHIBIT 10.10

2019 EQUITY INCENTIVE PLAN

FORM OF DEFERRED SHARES AWARD AGREEMENT

This Deferred Shares Award Agreement (this "Agreement") is made and entered into as of [DATE] (the "Date of Grant") by and between urban-gro, Inc., a Colorado corporation (the "Corporation") and [DIRECTOR NAME] (the "Director").

WHEREAS, the Corporation has adopted the Urban-gro, Inc. 2019 Equity Incentive Plan (the "Plan") under which awards of Deferred Shares may be granted; and

WHEREAS, the Committee has determined that it is in the best interests of the Corporation and its shareholders to grant the award of Deferred Shares provided for herein.

NOW, THEREFORE, the parties hereto, intending to be legally bound, agree as follows:

1. Grant of Deferred Shares. Pursuant to Section 7.C of the Plan, the Corporation hereby grants to the Director the future right to receive [NUMBER] shares of Common Stock (the "Deferred Shares"), on the terms and conditions and subject to the restrictions set forth in this Agreement and the Plan. Capitalized terms that are used but not defined herein have the meaning ascribed to them in the Plan.

2. Consideration. The grant of the Deferred Shares Award is made in consideration of the services to be rendered by the Director to the Corporation.

3. Deferral Period; Vesting.

(a) Except as otherwise provided herein, provided that the Director remains in continuous service to the Corporation through the applicable vesting date, the Deferred Shares will vest in accordance with the following schedule:

Vesting Date	Shares of Common Stock
April 30, 2020	[NUMBER OF SHARES VESTING]
May [●], 2021	[NUMBER OF SHARES VESTING]

The period over which the Deferred Shares vest is referred to as the "Deferral Period."

(b) If the Director's service on the Board terminates for any reason at any time before all of his or her Deferred Shares have vested, the Director's unvested Deferred Shares shall be automatically forfeited upon such termination of service and neither the Corporation nor any Affiliate shall have any further obligations to the Director under this Agreement.

(c) Unless otherwise determined by the Committee at the time of a change in control of the Corporation or other similar transaction or event, such transaction or event shall have no effect on the Deferred Shares.

4. Restrictions. Subject to any exceptions set forth in this Agreement or the Plan, during the Deferral Period and until such time as the Deferred Shares are delivered in accordance with Section 6, the Deferred Shares or the rights relating thereto may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Director. Any attempt to assign, alienate, pledge, attach, sell or otherwise transfer or encumber the Deferred Shares or the rights relating thereto during the Deferral Period shall be wholly ineffective and, if any such attempt is made, the Deferred Shares will be forfeited by the Director and all of the Director's rights to such Deferred Shares shall immediately terminate without any payment or consideration by the Corporation.

5. Rights as Shareholder. The Director shall not have any of the rights of a shareholder with respect to the Deferred Shares unless and until the Deferred Shares vest and are issued to the Director. Upon and following the issuance of the Deferred Shares, the Director shall be the record owner of the shares of Common Stock so issued unless and until such shares are sold or otherwise disposed of, and as record owner shall be entitled to all of the rights of a shareholder of the Corporation including, without limitation, the right to vote such shares of Common Stock and to receive all dividends or other distributions paid with respect to such shares.

6. Delivery of Deferred Shares. Subject to Section 9, at the end of each Deferral Period the Corporation shall issue and deliver to the Director the number of shares of Common Stock equal to the number of Deferral Shares that become vested for such Deferral Period, if any, and enter the Director's name on the Corporation's books as the shareholder of record with respect to the shares of Common Stock delivered to the Director.

7. No Right to Continued Service on the Board. Neither the Plan nor this Agreement shall confer upon the Director any right to be retained as a Director of the Corporation or in any other capacity. Further, nothing in the Plan or this Agreement shall be construed to limit the discretion of the Corporation to terminate the Director's service at any time.

8. Adjustments. If any change is made to the outstanding Common Stock or the capital structure of the Corporation, if required, the Deferred Shares shall be adjusted or terminated in any manner as contemplated by Section 9 of the Plan.

9. Tax Liability and Withholding.

(a) As a condition to the issuance of any Deferred Shares, the Corporation may withhold, or require the Director to pay or reimburse the Corporation for, any taxes which the Corporation determines are required to be withheld under federal, state or local law in connection with the Deferred Shares.

(b) Notwithstanding any action the Corporation takes with respect to any or all income tax, social insurance, payroll tax, or other tax-related withholding ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains the Director's responsibility and the Corporation makes no representation or undertakings regarding the treatment of any Tax-Related Items in connection with the grant or vesting of the Deferred Shares or the subsequent sale of any shares and does not commit to structure the Deferred Shares to reduce or eliminate the Director's liability for Tax-Related Items.

10. Compliance with Law. The issuance and transfer of shares of Common Stock shall be subject to compliance by the Corporation and the Director with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Corporation's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Corporation and its counsel.

11. Notices. Any notice required to be delivered to the Corporation under this Agreement shall be in writing and addressed to the [Secretary] of the Corporation at the Corporation's principal corporate offices. Any notice required to be delivered to the Director under this Agreement shall be in writing and addressed to the Director at the Director's address as shown in the records of the Corporation. Either party may designate another address in writing (or by such other method approved by the Corporation) from time to time.

12. Governing Law. This Agreement will be construed and interpreted in accordance with the laws of the State of Colorado without regard to conflict of law principles.

13. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by the Director or the Corporation to the Committee (excluding the Director if the Director serves on the Committee) for review. The resolution of such dispute by the Committee shall be final and binding on the Director and the Corporation.

14. Deferred Shares Subject to Plan. This Agreement is subject to the Plan as approved by the Corporation's shareholders. The terms and provisions of the Plan as it may be amended from time to time are hereby incorporated herein by reference. In the event of a conflict between any term or provision contained herein and a term or provision of the Plan, the applicable terms and provisions of the Plan will govern and prevail.

15. Successors and Assigns. The Corporation may assign any of its rights under this Agreement. This Agreement will be binding upon and inure to the benefit of the successors and assigns of the Corporation. Subject to the restrictions on transfer set forth herein, this Agreement will be binding upon the Director and the Director's beneficiaries, executors, administrators and the person or persons to whom the Deferred Shares may be transferred by will or the laws of descent or distribution.

16. Severability. The invalidity or unenforceability of any provision of the Plan or this Agreement shall not affect the validity or enforceability of any other provision of the Plan or this Agreement, and each provision of the Plan and this Agreement shall be severable and enforceable to the extent permitted by law.

17. Discretionary Nature of Plan. The Plan is discretionary and may be amended, cancelled or terminated by the Corporation at any time, in its discretion. The grant of the Deferred Shares in this Agreement does not create any contractual right or other right to receive any Deferred Shares or other Awards in the future. Future Awards, if any, will be at the sole discretion of the Corporation. Any amendment, modification, or termination of the Plan shall not constitute a change or impairment of the terms and conditions of the Director's membership on the Board.

18. Amendment. The Committee has the right to amend, alter, suspend, discontinue or cancel the Deferred Shares, prospectively or retroactively; provided, that, no such amendment shall adversely affect the Director's material rights under this Agreement without the Director's consent.

19. Section 409A. It is intended that the payments and benefits under this Agreement will be exempt from or comply with Section 409A of the Code, and shall be construed and interpreted in a manner that is consistent with the requirements for avoiding additional taxes or penalties under Section 409A of the Code. Notwithstanding the foregoing, the Corporation makes no representations that the payments and benefits provided under this Agreement are exempt from or comply with Section 409A of the Code and in no event shall the Corporation be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by the Director on account of non-compliance with Section 409A of the Code.

20. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Agreement transmitted by facsimile, by electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

21. Acceptance. The Director hereby acknowledges receipt of a copy of the Plan and this Agreement. The Director has read and understands the terms and provisions thereof, and accepts the Deferred Shares Award subject to all of the terms and conditions of the Plan and this Agreement. The Director acknowledges that there may be adverse tax consequences upon the vesting or delivery of the Deferred Shares or disposition of the shares and that the Director has been advised to consult a tax advisor prior to such vesting, delivery or disposition.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

URBAN-GRO, INC.

By: _____
Name:
Title:

[DIRECTOR NAME]

By: _____
Name:

EXHIBIT 10.11

February 21, 2020

Urban-gro, Inc.
1751 Panorama Point, Unit G,
Lafayette, CO 80026

Attention: Brad Nattrass

Dear Mr. Nattrass,

Re: Credit facility in favour of Urban-gro, Inc. (the "**Borrower**") granted by Bridging Finance Inc. as agent (the "**Agent**") for various lenders which may include itself (such lenders from time to time the "**Lenders**").

The Agent is pleased to offer the credit facility described in this letter agreement (this "**Agreement**") subject to the terms and conditions set forth herein including, without limitation, the satisfactory completion of the due diligence items described in the "Conditions Precedent" Section of this Agreement. Unless otherwise indicated, all amounts are expressed in Canadian currency. All capitalized terms not otherwise defined in the body of this Agreement shall have the meanings ascribed thereto in Schedule "A".

Borrower:	The Borrower (as defined above)
Guarantors:	URBAN-GRO CANADA TECHNOLOGIES INC. ("**Urban-Gro Canada**") and Impact Engineering, Inc. ("**Impact**" and together with Urban-Gro Canada, the "**Guarantors**", with the Borrower and the Guarantors collectively referred to as the "**Obligors**" and each individually as an "**Obligor**"). Brad Nattrass is also providing a pledge of shares he owns in the capital stock of the Borrower and a limited recourse personal guarantee, with recourse limited the cost of enforcement plus the greater of $2,700,000 and the value of such pledged shares (the "**Limited Guarantee and Pledge**"). In such capacity Brad Nattrass is referred to as the "**Personal Guarantor**".
Facilities:	Demand revolving loan of up to $5,400,000 (the "**Maximum Revolver Amount**"), based on the lending formula described below (the "**Revolving Facility**") and a term loan in the amount of $2,700,000 (the "**Term Loan**" with the Revolving Facility and the Term Loan collectively referred to as the "**Facilities**"). For greater certainty, despite the descriptor "Term Loan" the Term Loan shall be due on the Maturity Date (as defined below), that is the earlier of demand and the date that is twelve (12) months from the Closing Date.
Lending Formula for Revolving Facility:	The Revolving Facility shall be made available to the Borrower in an amount not to exceed the result of the following formula: (the "**Loan Availability**"):

The lending formula will be the aggregate of:

a) 90% of Insured Accounts Receivable;
b) 85% of Investment Grade Receivables;
c) 75% of Eligible Accounts Receivable that are not included in (a) and (b) above;
d) Plus 50% of the cost of Eligible Inventory;
e) Plus the lesser of $4,050,000; and
   (i) 75% of the uncollected amounts on Eligible Signed Equipment Order Forms ("EOF") for equipment systems contracts; plus
   (ii) Plus 85% of uncollected amounts on Eligible Signed Professional Services Order Forms ("PSOF") for design contracts;
   And provided, for greater certainty, that no advances will be made on either EOF's or PSOF's if they are also included in the calculation of "a)" through "c)" above or in respect of Eligible Inventory that forms part of an EOF if included in part "d)" above.

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typical availability reserves in respect of amounts that may have priority over the Liens or Security of the Lender or Agent, determined from time to time by the Agent in its sole discretion.

On a Business Day in each week as determined by the Agent (the "**Report Day**"), prior to 1:00 p.m. ET, the Borrower will provide a report (a "**Weekly Borrowing Base Report**") to the Agent (in form and substance satisfactory to the Agent) as well as any other information that may be reasonably required by the Agent in order to determine the Loan Availability. The Agent shall, upon receipt of such report, calculate the then existing Loan Availability.

If at any time, including without limitation, any Report Day, the amount of the Revolving Facility outstanding shall exceed the Loan Availability, the Borrower shall immediately repay the Revolving Facility in the amount of such excess.

Procedure for Borrowing:

Term Loan: Subject to satisfaction of the Conditions Precedent set out in this Agreement, the Term Loan shall be advanced by the Agent and the Lenders to the Borrowers in a single advance, anticipated to occur upon satisfaction of all "Conditions Precedent" set out below.

Revolving Facility: The Borrower may, on a Report Day, make a written request to the Agent for an Advance in an amount of no less than $100,000, and the Agent may after receipt of such request make an Advance to the Borrower in an amount up to the amount of such requested amount (i) subject to Loan Availability (ii) net of costs, fees, reimbursements and other amounts due and unpaid to the Agent at such time pursuant to the section of this Agreement titled "Interest Rate and Fees", and (iii) subject to the conditions set out in this Agreement. Any approved request will be funded within two (2) Business Days of such approval if such request is approved before 11 a.m. on any Business Day.

Term:	The earlier of: (i) demand, and (ii) the Stated Maturity (the "**Term**", with the earlier to occur of such dated referred to as the "**Maturity Date**"). The "**Stated Maturity**" means the date that is twelve (12) months after the Closing Date (the "**Initial Stated Maturity**"), provided that subject to the Borrower's request (to be made no less than sixty (60) days prior to the Initial Stated Maturity) and the Agent's written agreement (which agreement shall be at the sole and absolute discretion of the Agent) the Stated Maturity may be extended to the date that is twenty four (24) months after the Closing Date.
Purpose:	The Facilities may be used (i) to pay down on the date of the first Advance, in their entirety the following loans in respect of which the Borrower is the borrower thereunder (A) the loan in the principal amount of USD$2,700,000 from Hydrofarm Holdings Group, Inc. plus any other fees, expenses or amounts owed to Hydrofarm Holdings Group, Inc. up to USD$200,000, (B) the loan in the principal amount of USD$80,000 from Chris Parks; (C) the loan in the principal amount of USD$100,000 from David Parks, and (D) the loan in the principal amount of up to USD$668,250 from GCF Resources, LLC; and (ii) for general working capital purposes.
Interest Rate and Fees:	Interest: Annual rate of Prime Rate plus 11% per annum calculated on the principal amount of the Facilities outstanding, accruing daily and compounded monthly, not in advance. Accrued interest on the outstanding principal amount of the Facilities shall be due and payable monthly in arrears, on the last Business Day of each month, and on the Maturity Date. For the purpose of this Agreement, whenever interest or a fee to be paid hereunder is to be calculated on the basis of a year of 365 or 366 days, the yearly rate of interest or the yearly fee to which the rate or fee determined pursuant to such calculation is equivalent is the rate or fee so determined multiplied by the actual number of days in the calendar year of 365 or 366 days in which the same is to be ascertained and divided by either three hundred and sixty (360) or such other period of time, as the case may be. Administration Fee: If any Obligor fails to pay any amounts on the day such amounts are due, or if any Obligor fails to deliver the reports required to be delivered pursuant to Covenant (xx) of this Agreement, such Obligor shall pay to the Agent a late administration fee of $100 per day until such date that such payment has been made or such Obligor has delivered such report, as the case may be. Commitment Fee. On the date of the first advance under either the Term Loan or the Revolving Facility, a commitment fee in the amount of $162,000 (the "**Commitment Fee**") shall be fully earned by the Agent and the Lenders, non-refundable, and payable by the Borrower to Agent in consideration for structuring the Facilities. The Borrower hereby irrevocably directs the Agent to use part of the proceeds of the first advance of the Facilities to pay such Commitment Fee. Administration and Monitoring Fee. Borrower shall pay to the Agent a fully earned and non-refundable annual administration and monitoring fee in the amount of $32,400, plus applicable taxes. Such fee shall be payable in monthly installments of $2,700 (plus applicable taxes) in advance on the date of this Agreement and on the first day of each month thereafter for as long as any Obligations remain outstanding.

Expenses: The Borrower shall pay all reasonable fees and expenses (including, but not limited to, all reasonable due diligence, consultant, field examination and appraisal costs, all reasonable fees and expenses for outside legal counsel and other outside professional advisors) incurred by the Agent in connection with the preparation, registration and ongoing administration of this Agreement and the Security and with the enforcement of the Agent's rights and remedies under this Agreement or the Security, whether or not any amounts are advanced under this Agreement. If the Agent has paid any expense for which the Agent is entitled to reimbursement from each Obligor and such expense has not been deducted from an advance of the Facilities, such expense shall be payable by each Obligor promptly upon demand for payment and in the event that each Obligor does not pay such amounts within (5) business days of demand, interest shall accrue on such expense at the highest rate payable by each Obligor under this Agreement. All such fees and expenses and interest thereon shall be secured by the Security whether or not any funds under the Facilities are advanced.

Payments: Without limiting the right of the Agent to at any time demand repayment and subject to and in addition to the requirement for repayment of all Obligations in full pursuant to this Agreement, interest only at the aforesaid rate per annum, calculated daily and compounded and payable monthly, not in advance, shall be due and payable in arrears by 3:00pm on the first Business Day of each and every month during the Term. Without limiting the other payment obligations in this Agreement, all then outstanding principal and other Obligations shall be due and payable on the Maturity Date.

Prepayment: The Term Loan may be prepaid in full or partially at any time without any fee, premium or penalty after the six month anniversary of the first Advance under the Term Loan provided that the Borrower shall deliver an irrevocable prepayment notice to the Agent (the "**Prepayment Notice**") sixty (60) days prior to the proposed prepayment date (the "**Prepayment Date**") setting forth the amount being prepaid (the "**Prepayment Amount**") and provided that the Borrower pays the full Prepayment Amount on the Prepayment Date.

Should the Borrower wish to prepay the Term Facility in full or partially, at any time without having to provide the Agent with the required sixty (60) days prior notice, the Borrower shall pay to the Agent an amount calculated in accordance with the formula set out below and which shall be due and payable as of the date the prepayment is made ("**Advance Notice Fee**"):

$$I/365 \times (60 - N) \times M$$

Where:

I = the annual interest rate on the Term Facility on the date the Prepayment Notice was given or, if no Prepayment Notice was given, on the date the prepayment is made;

N = where a Prepayment Notice was given, the number of days between the date the Prepayment Notice is given and the date of prepayment, provided that if no Prepayment Notice was given, N shall equal 0; and

M = the Prepayment Amount, including any proportionate interest and other fees owing, on the date the Prepayment Notice was given or, if no Prepayment Notice was given, on the date the prepayment is made.

In the event that the Prepayment Amount is not paid in full on the Prepayment Date, then the Agent shall have the option, in its discretion, to declare and consider the Prepayment Notice to be null and void such that any prepayment shall thereafter only be permitted by the delivery of a new Prepayment Notice in compliance with this section.

In the event that the Borrower desires to prepay the Term Facility prior to the six month anniversary of the Advance thereunder the Borrower shall pay to the Agent an amount calculated in accordance with the formula set out below and which shall be due and payable as of the date the prepayment is made (the "**One Year Prepayment Amount**"):

I/365 x (183 – N) x M

Where:

I = the annual interest rate on the Term Facility on the prepayment date;

N = the number of days between the Advance under the Term Facility and the prepayment date; and

M = the prepayment amount, including any proportionate interest and other fees owing, on the date the prepayment is made.

For greater certainty, the fees referenced in this "Prepayment" section shall not be payable by the Borrower as a result of any demand made by the Agent under this Agreement, except where such demand is made by the Agent following the occurrence and during the continuance of an Event of Default.

For greater certainty, the Borrower may use the Revolving Facility by borrowing, repaying and re-borrowing amounts under the Revolving Facility in whole or in part, from time to time, without any fees, premiums, penalties, or advance notice required to be given to the Lender.

Conditions Precedent:

The availability of the Facilities at any time, and from time to time, is subject to and conditional upon the following conditions:

(i) satisfactory completion of initial due diligence and, in the case of the second or subsequent advance, any further required due diligence, including the Agent's review of the operations of each Obligor and its business and financial plans;

(ii) satisfactory completion of the Agent's legal due diligence;

(iii) receipt of a duly executed copy of this Agreement and the Security, in form and substance satisfactory to the Agent and its legal counsel, registered as required to perfect and maintain the security interests created thereby and such certificates, authorizations, resolutions and legal opinions as the Agent may reasonably require including one or more opinions from each Obligor's counsel with respect to status and the due authorization, execution, delivery, validity and enforceability of this Agreement and the Security;

(iv) the discharge or subordination of any and all existing security against each Obligor as may be reasonably required by the Agent;

(v) payment of all fees due and owing to the Agent hereunder;

(vi) delivery of such financial and other information or documents relating to each Obligor as the Agent may reasonably require;

(vii) the Agent being reasonably satisfied that there has been no material deterioration in the financial condition of any Obligor;

(viii) no event shall have occurred and be continuing and no circumstance shall exist which has not been waived, which constitutes an event of default in respect of any material commitment, agreement or any other instrument to which any Obligor is a party or is otherwise bound, entitling any other party thereto to accelerate the maturity of amounts of principal owing thereunder or terminate any such material commitment, agreement or instrument which would have a Material Adverse Effect upon any Obligor; and

(ix) no event that constitutes, or with notice or loss of time or both, would constitute an Event of Default shall have occurred and be continuing.

Each of the following is a condition precedent to any subsequent advance to be made hereunder:

(i) all of the conditions precedent contained in this Agreement shall have been satisfied or waived by the Agent and shall as at the time of the making of the subsequent advance in question continue to be satisfied or waived by the Agent;

(ii) all of the representations and warranties of each Obligor herein are true and correct in all material respects on and as of the date of such subsequent Advance as though made on and as of such date other than those representations and warranties which relate to a specific date which shall continue to be true as of such date;

(iii) no event or condition has occurred and is continuing, or would result from such Advance, which constitutes or which, with notice, lapse of time, or both, would constitute a breach of any material covenant or other material term or condition of this Agreement or the Security;

(iv) such borrowing will not violate any Applicable Law (which for the purposes of this Agreement means, with respect to any person, property, transaction or event, all present or future statutes, regulations, rules, orders, codes, treaties, conventions, judgments, awards, determinations and decrees of any governmental, regulatory, fiscal or monetary body or court of competent jurisdiction, in each case, having the force of law in any applicable jurisdiction then in effect) other than any violation that would not reasonably be expected to have a Material Adverse Effect;

(v) no Event of Default shall have occurred; and

(vi) no other event shall have occurred that, in the Agent's sole discretion, acting reasonably, would have a Material Adverse Effect on any Obligor.

The making of an Advance hereunder without the fulfillment of one or more conditions set forth in this Agreement shall not constitute a waiver of any such condition, and the Agent reserves the right to require fulfillment of such condition in connection with any subsequent Advance.

Nothing in this Agreement creates a legally binding obligation on the Agent to advance any amount under any of the Facilities at any time unless the Agent is completely satisfied in its sole discretion, acting reasonably, that each Obligor is in compliance with every provision of this Agreement and that no fact exists or event has occurred which changes the manner in which the Agent previously evaluated the risks inherent in advancing amounts to the Borrower under any of the Facilities, whether or not the Agent was or should have been aware of such facts or events differently at any time.

Representations and Warranties: Each Obligor represents and warrants to the Agent and the Lenders (each of which representations and warranties shall survive the execution and delivery of this Agreement, and save and except for any representation and warranty given as at a specific date, shall be deemed to be repeated, and shall remain true and completed at the time of each advance of any of the Facilities made pursuant to this Agreement) as follows:

(i) in respect of the Borrower and Impact such corporations are duly incorporated and validly existing under laws of the State of Colorado, and are duly registered or qualified to carry on business pursuant to the laws of such state and any other jurisdiction where they may carry on business;

(ii) in respect of Urban-Gro Canada, such corporation is duly incorporated and validly existing under laws of the province of British Columbia, and is duly registered or qualified to carry on business pursuant to the laws of such province and any other jurisdiction where it may carry on business;

(iii) Schedule “B” provides a true and complete listing of the following in respect of each of the Obligors: (A) the jurisdictions in which each Obligor is organized and qualified to do business, or (B) the locations where each Obligor has tangible personal property with a book value greater than US$100,000, (C) the chief executive office of each Obligor; and (D) each name (within the meaning of Section 9-503 of the Code) used by the Obligors in the previous five (5) years;

(iv) no Obligor has any Subsidiaries that is not an Obligor, where "**Subsidiaries**" means respect to any person: (i) any corporation of which an aggregate of more than 50% of the outstanding shares having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, shares of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such person and/or one or more Subsidiaries of such person, or with respect to which any such person has the right to vote or designate the vote of 50% or more of such shares whether by proxy, agreement, operation of law or otherwise; and (ii) any partnership or limited liability company in which such person or one or more Subsidiaries of such person has an equity interest (whether in the form of voting or participation in profits or capital contribution) of more than 50% or of which any such person is a general partner or manager or may exercise the powers of a general partner or manager;

(v) after giving effect to the transactions contemplated hereby, the capitalization of each Obligor and its respective Subsidiaries is as set forth on Schedule "C"**.** All outstanding capital stock listed therein has been duly authorized and validly issued and is fully paid and non-assessable and free and clear of all Liens other than Permitted Encumbrances. The issuance of the foregoing capital stock is not and has not been subject to preemptive rights in favour of any person other than such rights that have been waived and will not result in the issuance of any additional capital stock of any Obligor or the triggering of any anti-dilution or similar rights contained in their respective charter documents or any options, warrants, debentures or other securities or agreements of any Obligor or any Subsidiary of an Obligor (other than in each case to the Agent). Other than as set out on Schedule "C", on the date of this Agreement, there will be no outstanding securities convertible into or exchangeable for capital stock of any Obligor or any Subsidiary of an Obligor or options, warrants (other than to the Agent) or other rights to purchase or subscribe for capital stock of any Obligor or any Subsidiary of an Obligor, or contracts, commitments, agreements, understandings or arrangements of any kind to which any Obligor or any Subsidiary of an Obligor is a party relating to the issuance of any capital stock of any Obligor or any Subsidiary of an Obligor, or any such convertible or exchangeable securities or any such options, warrants or rights. On the date of this Agreement no Obligor nor any Subsidiary of an Obligor has any obligation, whether mandatory or at the option of any other person, at any time to redeem or repurchase any capital stock of any Obligor or any Subsidiary of an Obligor, pursuant to the terms of their respective charter documents or otherwise;

(vi) the execution, delivery and performance by each Obligor of this Agreement has been duly authorized by all necessary actions and does not violate the constating documents or any Applicable Laws or material agreements to which such Obligor is subject or by which it is bound;

(vii) no Obligor is in material violation or breach of or in material default with respect to, complying with any provision of any material contract, agreement, instrument, lease, license, concession, arrangement or understanding to which it is a party (collectively, "**Material Agreements**"), and each such Material Agreement is in full force and effect and is the legal, valid and binding obligation of such Obligor, enforceable as to such party in accordance with its terms (subject to applicable bankruptcy, insolvency and other laws affecting the enforceability of creditors' rights generally and to general equitable principles), excluding any violation, breach or default that has not had and would not reasonably be expected to have a Material Adverse Effect on any Obligor. Each Obligor has performed in all material respects all obligations required to have been performed under such Material Agreements through the date hereof. No Obligor is in violation or breach of, or in default with respect to, any term of its certificate of incorporation, applicable bylaws or other constating documents, excluding any violation, breach or default that has not had and would not reasonably be expected to have a Material Adverse Effect on any Obligor. No third party is in default under any agreement, contract or other instrument, document or agreement to which an Obligor is a party, which default would or could have a Material Adverse Effect on such Obligor;

(viii) no Obligor is in default in the performance or observance of any obligation with respect to any order, writ, injunction or decree of any court of any federal, provincial, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign and there exists no condition, event or act which constitutes, nor which after notice, the lapse of time or both, would constitute, a default under any of the foregoing, in each case that would reasonably be expected to have a Material Adverse Effect on any Obligor. Upon the execution of this Agreement, no Obligor will be in breach of any term of any of the Credit Documents nor will any Event of Default be presently occurring;

(ix) no Obligor nor any Subsidiary of an Obligor is a party to any collective bargaining agreement and as of the date of this Agreement, to the knowledge of the Obligors, there is no organizing activity involving any Obligor by any labour union or group of employees;

(x) Within the five-consecutive-year period immediately preceding the first day of the year in which the date of this Agreement occurs no Obligor, and no ERISA Affiliate of any Obligor has contributed to, or has any actual or contingent, direct or indirect, liability in respect of, any Plan (other than, for greater certainty, Plans maintained by the Government of Canada or any Government of a Province of Canada to which the Borrower is obligated to contribute under any applicable law). No ERISA Event has occurred or is reasonably expected to occur. No Pension Event has occurred or is continuing.

(xi) each Obligor is in compliance with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT Act (Title III of Pub. L. 107-56, signed into law October 26, 2001)) (the "**Patriot Act**");

(xii) no Obligor nor any of its Subsidiaries is in violation of any of the country or list based economic and trade sanctions administered and enforced by OFAC or Canadian Anti-Terrorism Laws. No Obligor nor any of its Subsidiaries (a) is a Sanctioned Person or a Sanctioned Entity, (b) has assets located in Sanctioned Entities, (c) derives revenues from investments in, or transactions with Sanctioned Persons or Sanctioned Entities, or (d) engages in any dealing or transactions prohibited by Canadian Anti-Terrorism Laws.

(xiii) there is no claim, action, prosecution or other proceeding of any kind pending or threatened against any Obligor or any of its assets or properties before any court or administrative agency which relates to any non-compliance with any Applicable Law which, if adversely determined, would have a Material Adverse Effect upon such Obligor, and there are no circumstances of which any Obligor is aware which might give rise to any such proceeding;

(xiv) no Obligor has received any notice of any violation of, or noncompliance with, any federal, provincial, state, local or foreign laws, ordinances, regulations or orders (including, without limitation, those relating to all applicable federal, provincial, state and local insurance laws, rules and regulations, environmental protection, occupational safety and health and other labour laws, drug laws, securities laws, corrupt practices laws, anti-bribery or anti-corruption laws, equal employment opportunity, consumer protection, credit reporting, "truth-in-lending," and warranties and trade practices) ("**Notice of Violation**") applicable to their respective businesses, the violation of, or noncompliance with which, could reasonably be expected to have a Material Adverse Effect on any Obligor, and no Obligor knows of any facts or set of circumstances which, to its knowledge, would give rise to such a notice. Each Obligor has all licenses and permits and other governmental certificates, authorizations and permits and approvals, (collectively, "**Governmental Licenses**") required by every federal, provincial, state and local Governmental Authority or other regulatory body for the operation of their businesses as currently conducted and the use of its properties where the failure to obtain or possess such Governmental License would reasonably be expected to have a Material Adverse Effect on any Obligor. The Governmental Licenses are in full force and effect and, no violations are or have been recorded in respect of any Governmental License and no proceeding is pending or threatened to revoke or limit any part thereof;

(xv) no officer or director of any Obligor is a party to, or subject to the provisions of, any order, writ, injunction, judgment or decree of any court or Governmental Authority that has had or would reasonably be expected to have a Material Adverse Effect on any Obligor.

(xvi) each Obligor has good and marketable title to all of its properties and assets, free and clear of any Encumbrances other than Permitted Encumbrances, other than as may be provided for herein;

(xvii) each real property location owned, leased or occupied by or otherwise in the charge, management or control of each Obligor (the "**Real Property**") is maintained free of material contamination that is required by the applicable Environmental Laws to be removed, remediated or mitigated; (b) no Obligor is subject to any Environmental Liabilities or, to any Obligor's knowledge, potential Environmental Liabilities, in excess of US$100,000 in the aggregate (c) no notice has been received by any Obligor identifying it as a "potentially responsible party" or otherwise identifying it as a potentially liable party or requesting information under the EPA or analogous federal, state, or provincial laws, in each case, to the extent applicable, and to the knowledge of any Obligor, there are no facts, circumstances or conditions that may result in any Obligor being identified as a "potentially responsible party" under the EPA or analogous federal, state, or provincial laws, in each case, to the extent applicable; and (d) each Obligor has provided to Agent copies of all existing environmental reports, reviews and audits and all written information pertaining to actual or potential Environmental Liabilities, in each case relating to each Real Property location.

(xviii) the assets and properties of each of the Obligors are insured against all risks customarily insured against by persons owning, leasing or operating similar properties and assets in the localities where such properties or assets are located, through insurance policies all of which are in full force and effect. Each Obligor is insured against all claims relating to its activities to the same extent that the risks of such claims are customarily insured against by persons or entities involved in similar activities. Each of the insurance policies referred to in this section is issued by an insurer of recognized responsibility, and no Obligor has received any notice or threat of the cancellation or non-renewal of any such policy;

(xix) each Obligor is in compliance with all Applicable Laws (where failure to comply could reasonably be expected to result in a Material Adverse Effect) respecting employment and employment practices, terms and conditions of employment and wages and hours and, there are no pending investigations involving any of them by any domestic or foreign governmental agency responsible for the enforcement of such Applicable Laws. There is no unfair labour practice charge or complaint against any Obligor pending before any labour board or tribunal, or any strike, picketing, boycott, dispute, slowdown or stoppage pending or threatened against or involving them or any predecessor entities. No collective bargaining agreement or modification thereof is currently being negotiated by any Obligor and no labour dispute with the employees of any of them exists, or is imminent;

(xx) no shareholder, officer or director of any Obligor nor any "affiliate" or "associate" of such persons (as such terms are defined in the rules and regulations promulgated under the *Securities Act* (Ontario) (or equivalent legislation of another Canadian province or territory) (herein, a "**Related Party**") is a party to any agreement with any Obligor on terms less favourable than could reasonably be expected to be obtained through ordinary course negotiations with arm's length parties, or which would require public disclosure in accordance with applicable securities laws, including, without limitation, any contract, agreement or other arrangement providing for the rental of real or personal property from, or otherwise requiring payments not in the ordinary course of business to, any Related Party (any such agreement an "**Affiliate Transaction**") other than the contracts, agreements, and documents with Related Parties set out in Schedule "D" hereof (collectively, the "**Related Party Contracts**"). No employee of any Obligor or any Related Party is indebted to any other Obligor and no Obligor is indebted to any of its employees;

(xxi) each Obligor is Solvent and no Obligor will be rendered not Solvent by the execution and delivery of any of the Credit Documents to which it is a party;

(xxii) no Obligor has created, incurred, assumed, or suffered to exist any hedging agreement, including without limitation any present or future swap, hedging, foreign exchange or other derivative transaction;

(xxiii) no event has occurred which constitutes, or which, with notice, lapse of time, or both, would constitute, an Event of Default, a breach of any material covenant or other material term or condition of this Agreement or any of the Security given in connection therewith;

(xxiv) no Obligor has any debt for borrowed money or has guaranteed the obligations of others in respect of debt for borrowed money, other than (i) debts and guarantees to or in favour of the Agent, (ii) other indebtedness as is set out in Schedule "E" hereto, or (iii) unsecured indebtedness between the Obligors,(collectively the "**Permitted Debt**");

(xxv) no Obligor is an "investment company", or a company "controlled" by a "registered investment company" or a "principal underwriter" of a "registered investment company", within the meaning of the Investment Company Act of 1940, as amended;

(xxvi) each Obligor has filed all tax returns which were required to be filed by it, if any, paid or made provision for payment of all taxes and potential prior ranking claims (including interest and penalties) which are due and payable, if any and provided adequate reserves for payment of any tax, the payment of which is being contested, if any;

(xxvii) there does not exist any taxable years for which any Obligor's tax returns are currently being audited by the Canada Revenue Agency, the Internal Revenue Service or any other applicable Governmental Authority and no assessments or threatened assessments in connection with such audit, or otherwise are currently outstanding;

(xxviii) each Obligor's obligation to complete this transaction is not dependent upon any condition whatsoever, and that Agent and the Lenders assume no obligation to assist the Obligors to complete the transaction in any way, except to make available any of the Facilities in accordance with the terms of this Agreement.

Covenants: Each Obligor covenants and agrees with the Agent, while this Agreement is in effect to:

(i) pay all sums of money when due hereunder or arising from this Agreement or the other Credit Documents;

(ii) provide the Agent with prompt written notice of any event which constitutes, or which, with notice, lapse of time, or both, would constitute an Event of Default, a breach of any material covenant or other material term or condition of this Agreement or of any Credit Document;

(iii) use the proceeds of the Facilities for the purposes provided for herein;

(iv) no Obligor shall make, or permit the making of a Restricted Payment save and except for payments made when no Event of Default has occurred or would occur as a result of making the Restricted Payment;

(v) no Obligor, or capital stock of an Obligor, will be subject to a shareholders' agreement;

(vi) continue to carry on business in the nature of or related to the business transacted by such Obligor prior to the date hereof (and not any other business) in the name and for the account of such Obligor;

(vii) keep and maintain books of account and other accounting records in accordance with GAAP;

(viii) the Borrower shall use commercially reasonable efforts to enter into a blocked account agreement in respect of its operating account (#100010287988) with Alpine Bank (the "**Collection Account**") within 60 days of the date hereof on the applicable depositary bank's standard form, and on terms acceptable to the Agent. At all times after such 60th day, the amount on deposit in all accounts of all of the Obligors not controlled by the Agent through a blocked account agreement satisfactory to the Agent, shall not exceed US$100,000 in the aggregate. At all times, all collections of the Borrower shall be promptly deposited into the Collection Account;

(ix) not sell, transfer, convey, lease or otherwise dispose of any Collateral, or permit any reorganization or Change of Control of any Obligor, except for Permitted Dispositions, unless in each case consented to by the Agent in advance, "**Permitted Dispositions**" means in respect of any Collateral of the Obligors, (i) sales of inventory in the ordinary course of business, (ii) sales of obsolete, immaterial, worn-out or surplus assets (but not intellectual property) no longer used or usable in the business of each Obligor, (iii) leases, subleases, nonexclusive licenses or nonexclusive sublicenses of real or personal property in the ordinary course of business, in each case subject to the Encumbrances granted under the Credit Documents, and (iv) dispositions of Collateral (other than intellectual property) in the ordinary course of business to the extent that (a) such Collateral is exchanged for credit against the purchase price of similar replacement property, or (b) the proceeds of such disposition are promptly applied to the purchase price of such replacement property and, in each case, so long as the Agent has an Encumbrance with respect to such replacement property with the same priority as the Encumbrance of the Agent with respect to the Collateral disposed of;

(x) not purchase or redeem its shares or otherwise reduce its capital;

(xi) not be party to a Plan (other than, for greater certainty, any Plans maintained by the Government of Canada or any Government of a Province of Canada to which the Borrower is obligated to contribute under any applicable law);

(xii) form, or otherwise have a Subsidiary, other than a Subsidiary that is an Obligor;

(xiii) not repay any shareholders' loans, interest thereon or share capital, unless otherwise permitted pursuant to the terms of a written intercreditor agreement, or subordination agreement to which the Agent is a signatory;

(xiv) not make loans or advances (excluding for greater certainty, salaries and bonuses in the ordinary course of business and consistent with prior practice (which shall not be funded from the sale of assets) to shareholders, directors, officers or any other related or associated party);

(xv) no Obligor shall own any real property without the prior written consent of the Agent;

(xvi) not enter into any Affiliate Transaction (other than any Related Party Contracts) without the prior written consent of the Agent, such consent not to be unreasonably withheld;

(xvii) permit the Agent or its representatives (including the cost consultant of the Agent), at any time and from time to time with such frequency as the Agent, in its sole discretion, may reasonably require, during business hours, to visit and inspect the Obligor's premises, properties, and assets and to examine and obtain copies of each Obligor's records or other information and discuss each Obligor's affairs with the auditors, counsel and other professional advisors of such Obligor all at the expense of the Borrower; provided, however, that if no Event of Default shall have occurred and be continuing no more than 4 such visits and/or inspections, in the aggregate in any calendar year shall be at the cost of the Borrower;

(xviii) forthwith notify the Agent of the particulars of any occurrence which constitutes an Event of Default hereunder or of any action, suit or proceeding, pending or to the Obligor's knowledge threatened against the Obligor where the potential liability to the Obligors, as a whole, exceeds US$250,000;

(xix) each Obligor: (i) shall comply in all material respects with all applicable Environmental Laws and environmental permits; (ii) shall notify Agent in writing promptly if and when it becomes aware of any Release, on, at, in, under, above, to, from or about any of its Real Property; and (iii) shall promptly forward to Agent a copy of any order, notice, permit, application, or any communication or report received by it or any other Obligor in connection with any such Release.

(xx) in a form and manner prescribed by the Agent (which may include by fax and/or e-mail), deliver to the Agent the following, signed by a senior officer of each Obligor:

(a) monthly, by the thirtieth (30th) day of each calendar month, with respect to the prior month internally prepared financial statements for the most recent month just ended and internally prepared financial statements for the year to date;

(b) monthly bank statements for all bank accounts of each Obligor within 5 (five) days of its month-end;

(c) annually, no later than 30 days prior to the end of the Borrower's financial year, financial and business projections for the following financial year prepared on a consolidated basis;

(d) annually, within 120 days of the Borrower's financial year end in respect of the preceding financial year, audited financial statements of the Borrower prepared on a consolidated basis and in accordance with GAAP, without qualification by an independent qualified accounting firm acceptable to the Agent; and such additional financial information with respect to Borrower as and when requested by the Agent; provided that in the event that the foregoing reporting does not meet the requirements of the Agent in its discretion, acting reasonably, the Agent and the Borrower agree to discuss any additional requirements of the Agent with a view to agreeing as to any further reporting desired by the Agent.

(xxi) file all tax returns which each Obligor must file from time to time, to pay or make provision for payment of all taxes (including interest and penalties) and other potential preferred claims which are or will become due and payable and to provide adequate reserves for the payment of any tax, the payment of which is being contested;

(xxii) not grant, create, assume or suffer to exist any mortgage, charge, Lien, pledge, security interest, including a purchase money security interest, or other Encumbrance affecting any of the Obligor's properties (including the Real Property), assets or other rights except for Permitted Encumbrances;

(xxiii) not grant a loan or make an investment in or provide financial assistance to a third party by way of a suretyship, guarantee or otherwise (other than in favour of the Agent);

(xxiv) not, without the prior written consent of the Agent, incur any indebtedness other than trade payables in the ordinary course of its business and other than Permitted Debt, with indebtedness in this context including without limitation (i) debt for borrowed money or for the deferred purchase price of property or services (including reimbursement and all other obligations with respect to surety bonds, letters of credit and bankers' acceptances, whether or not matured) (ii) all obligations evidenced by notes, bonds, debentures or similar instruments; (iii) all indebtedness created or arising under any conditional sale or other title retention agreements with respect to property acquired by such Obligor (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property); (iv) all capital lease obligations or purchase money security interests in an aggregate amount not to exceed US$100,000 and (v) all guarantees of the indebtedness of others;

(xxv) not change its name, merge, amalgamate or otherwise enter into any other form of business combination with any other entity without the prior written consent of the Agent;

(xxvi) not permit any of the information in Schedules "B", "C","D", "E", "F" or "G" to this Agreement to be untrue at any time and if given from time to time, without giving the Agent no less than 15 days prior notice of any changes required to be made to such Schedule to make such schedules true;

(xxvii) keep each Obligor's assets fully insured against such perils and in such manner as would be customarily insured by companies carrying on a similar business or owning similar assets, including the standard mortgage endorsement and naming the Agent as first loss payee (with respect to property insurance) and as an additional insured with respect to liability insurance, and to ensure all assets secured by the Security are in existence and in the possession and control of the applicable Obligor;

(xxviii) comply with all Applicable Laws (where the failure to do so could reasonably be expected to result in a Material Adverse Effect) and to advise the Agent promptly of any action, requests or violation notices received from any government or regulatory authority concerning any Obligor's operations; and to indemnify and hold the Agent and the Lenders harmless from all liability of loss as a result of any non-compliance with such Applicable Laws;

(xxix) each Obligor shall, at all times, be in compliance with the (a) Trading with the Enemy Act, as amended, and each of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) and any other enabling legislation or executive order relating thereto, and (b) the Patriot Act. No part of the proceeds of the loans made hereunder will be used by any Obligor or any of its Affiliates, directly or indirectly, (a) for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended or (b) , to finance any investments or activities in, or make any payments to, a Sanctioned Person or a Sanctioned Entity;

(xxx) at no time will the aggregate book value of all inventory of the Obligors at all locations others than those locations owed by an Obligor, or in respect of which the Agent is party to an enforceable landlord waiver in respect of such location, exceed US$100,000.

(xxxi) no part of the proceeds of the Facilities will be used by any Obligor to purchase or carry any "margin stock" within the meaning of Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or to extend credit to others for the purpose of purchasing or carrying any such "margin stock" or to reduce or retire any indebtedness incurred for any such purpose. No Obligor nor any of their subsidiaries are engaged principally or as one of its important activities in the business of extending credit for the purpose of purchasing or carrying any such "margin stock".

Security and other Requirements:

As general and continuing security for the performance by each Obligor of all of its obligations, present and future, to the Agent, including, without limitation, the repayment of advances granted hereunder and the payment of interest, fees and any other amounts provided for hereunder and under the security documents, each Obligor undertakes to grant to the Agent and to maintain at all times the following security in form satisfactory to the Agent (the "**Security**"), in accordance with the forms in use by the Agent or as prepared by its solicitors:

(i) a General Security Agreement, on the Agent's form signed by each Obligor constituting a first ranking security interest in all personal property of such Obligor;

(ii) a postponement and subordination of all loans extended to any Obligor by any directors, officers, shareholders, non-arms' length creditors (including without limitation Cloud9 Support Inc.) and related parties, to include a postponement of the right to receive any payments of both principal and interest under such loans;

(iii) evidence that the Obligors have the insurance required pursuant to the terms of this Agreement, and that the Agent has been added as a loss payee or an additional insured as required pursuant to this Agreement;

(iv) assignment of insurance of each Obligor with loss payable to the Agent;

(v) a landlord waiver on form satisfactory to the Agent in respect of 1751 Panorama Point, Lafayette, CO 80026;

(vi) the Limited Guarantee and Pledge together with the shares being pledged pursuant thereto;

(vii) such other security as may be reasonably required by the Agent.

Events of Default: Without limiting any other rights of the Agent and the Lenders under this Agreement, including a right to accelerate and demand repayment on demand at any time at the sole and absolute discretion of the Agent whether or not an Event of Default has occurred, if any one or more of the following events (an "**Event of Default**") has occurred and is continuing:

(i) any Obligor shall fail to make or pay any monetary obligation under this Agreement or any other Credit Document when and as the same shall become due and payable, and such failure remains unremedied for a period of three (3) Business Days;

(ii) any Obligor shall fail to observe or perform any non-monetary obligation or provision of this Agreement or any other Credit Document and such failure remains unremedied for ten (10) days following such failure and provided that such ten (10) day cure period shall not apply if (A) such breach or failure is not capable of being cured, or, in the discretion of the Agent is not reasonably likely be able to be cured in such ten (10) day period or (B) the Borrower did not promptly give notice of such breach or default to the Agent in accordance with the terms of this Agreement;

(iii) any Obligor is in default under the terms of any other contracts or agreements where such default could reasonably be expected to result in a Material Adverse Effect;

(iv) any Obligor is in default after any applicable grace period under the material terms of any other material agreement in respect of debt for borrowed money in excess of the principal amount of US$250,000;

(v) the Agent receives from any Guarantor or any Personal Guarantor a notice proposing to terminate, limit or otherwise modify such Guarantor's liability under its guarantee of the Borrower's Obligations;

(vi) a Pension Event or an ERISA Event shall have occurred that, alone or together with any other Pension Event or ERISA Events that have occurred, in the opinion of Agent, could give rise to a Material Adverse Effect or could result in any Lien or any liability on the part of the Agent or any Lender;

(vii) any Obligor ceases or threatens to cease to carry on business in the ordinary course (other than any reduction in operations or cessation of operations by any Obligor during any period of construction or retrofit), or as conducted at the time of this Agreement;

(viii) any default or failure by an Obligor to make any payment of wages, or other monetary remuneration payable by such Obligor to its employees under the terms of any contract of employment, unless the Obligor, in good faith, disputes the requirement to make to such payment, or unless the aggregate amount of such payments does not exceed US$100,000 in any fiscal year;

(ix) any default or failure by any Obligor to keep current all amounts owing to parties other than the Agent who, in the Agent's sole opinion, acting reasonably, have or could have a security interest, trust or deemed trust in the property, assets, or undertaking of an Obligor, senior in priority to the security interest of the Agent;

(x) if any representation or warranty made or deemed to have been made herein or in any certificate (including any information certificate), statement, report, financial statement or the Security provided for herein or associated with this Agreement shall be materially false or inaccurate when made or deemed to have been made and, if the circumstances giving rise to the incorrect representation or warranty are capable of modification or rectification (such that, thereafter the representation or warranty would be correct), the representation or warranty remains uncorrected for a period of ten (10) days;

(xi) if, in the reasonable opinion of the Agent, there is a Material Adverse Change in respect of any Obligor;

(xii) any Obligor is unable to pay its debts as such debts become due;

(xiii) any judgment or award, or series of judgements or awards are made against one or more Obligors in excess of US$250,000 in the aggregate, in respect of which there is not an appeal or proceeding for review being diligently pursued in good faith and adequate provision has been not made on the books of such Obligor and which judgement is not covered by insurance; or

(xiv) there shall be commenced against any Obligor litigation seeking or effecting any seizure (whether in execution or otherwise), attachment, execution, distraint or similar process against all or any substantial part of its assets which remain unreleased or undismissed for sixty (60) consecutive days, unless within such sixty (60) days, any seizure or taking possession of any property of such Obligor shall have occurred; or any creditor (other than Agent or the Lenders) takes possession of all or any substantial part of the assets of any Obligor; or any creditor (other than the Agent or the Lenders) enforces or gives notice of its intention to enforce or gives prior notice with respect to the exercise of any of its hypothecary or other rights under any Liens granted to it by or over all or any substantial part of any assets of any Obligor; or any custodian, receiver, interim receiver, liquidator, assignee, trustee, monitor, sequestrator or similar official is appointed in respect of any Obligor or takes possession of all or any substantial part of the assets of any Obligor, or any Obligor commits an "act of bankruptcy" (as defined under the relevant provisions of the *Bankruptcy and Insolvency Act* (Canada)), becomes insolvent or shall have concealed, removed or permitted to be concealed or removed, all or any substantial part of its property with intent to hinder, delay or defraud any of its creditors or make or suffer a transfer of any of its property or the incurring of an obligation which may be fraudulent, reviewable or the object of any proceedings under any applicable bankruptcy or insolvency legislation, creditor protection legislation or other similar laws; or

(xv) a petition, proposal, notice of intention to file a proposal, case or proceeding shall have been commenced involuntarily against any Obligor in a court having competent jurisdiction seeking a declaration, judgment, decree, order or other relief: (i) under the *Bankruptcy and Insolvency Act* (Canada), *Companies' Creditor Arrangement Act* (Canada) or any other applicable federal, provincial, state or foreign bankruptcy or other law providing for suspension of operations or reorganization of debts or relief of debtors, and seeking either (x) the appointment of a custodian, receiver, interim receiver, liquidator, assignee, trustee, monitor or sequestrator (or similar official) for such Person or of any substantial part of its properties, or (y) the reorganization or winding-up or liquidation of the affairs of any such person, and such proposal, case or proceeding shall remain undismissed or unstayed for thirty (30) consecutive days or such court shall enter a declaration, judgment, decree or order granting the relief sought in such case or proceeding; or (ii) invalidating or denying any person's right, power, or competence to enter into or perform any of its obligations under any Credit Document or invalidating or denying the validity or enforceability of this Agreement or any other Credit Document or any action taken hereunder or thereunder; or

(xvi) any Obligor shall: (i) commence any petition, proposal, notice of intention to file a proposal, case, proceeding or other action under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization, suspension of operations, conservatorship or relief of debtors, seeking to have an order for relief entered with respect to it or seeking appointment of a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for it or any substantial part of its properties; (ii) make a general assignment for the benefit of creditors; (iii) consent to or take any action in furtherance of, or, indicating its consent to, approval of, or acquiescence in, any of the acts set forth in paragraphs (xiv), (xv) or (xvi) of this Section entitled "Events of Default" or clauses (i) or (ii) of this paragraph (xvi); or (iv) shall admit in writing its inability to, or shall be generally unable to, pay its debts as such debts become due;

then, in such event, the Agent may, by written notice to the Borrower declare all monies outstanding under the Facilities to be immediately due and payable, except that in respect of any Event of Default listed in part (xv) and (xvi), the Obligations shall become immediately due and payable (and any obligation of the Agent and the Lenders to make further loan or advance available under the Facilities, if not previously terminated, shall immediately be terminated) without declaration, notice or demand by the Agent. Upon receipt of such written notice (if any is required), each Obligor shall immediately pay to the Agent all monies outstanding under the Facilities and all other obligations of each Obligor to the Agent in connection with the Facilities under this Agreement. The Agent may enforce its rights to realize upon its Security and retain an amount sufficient to secure the Agent for each Obligor's Obligations to the Agent.

Nothing contained in this section shall limit any right of the Agent under this Agreement to demand payment of the Facilities at any time.

Evidence of Indebtedness:

The Agent shall maintain records evidencing the Facilities. The Agent shall record the principal amount of the Facilities, the payment of principal and interest on account of the Facilities, and all other amounts becoming due to the Agent or the Lenders under this Agreement.

The Agent's accounts and records constitute, in the absence of manifest error, prima facie evidence of the indebtedness of the Borrower to the Agent and the Lenders pursuant to this Agreement.

Fees and Expenses:	Each Obligor jointly and severally agrees to pay or reimburse the Agent and the Lenders for all costs and expenses (including the fees and expenses of all counsel, advisors, consultants (including environmental and management consultants), field examiners, appraisers and auditors retained in connection therewith), incurred in connection with: (a) the preparation, negotiation, execution, delivery, performance and enforcement of the Credit Documents and the preservation of any rights thereunder; (b) collection, including deficiency collections; (c) the forwarding to any Obligor or any other person on behalf of any Obligor by Agent of the proceeds of any of the Facilities; (d) any amendment, waiver or other modification with respect to any Credit Document or advice in connection with the administration of the Facilities or the rights thereunder; (e) any litigation, dispute, suit, proceeding or action (whether instituted by or between any combination of the Agent, any Lender, an Obligor, any Personal Guarantor or any other Person), and an appeal or review thereof, in any way relating to the Collateral, any Credit Document, or any action taken or any other agreements to be executed or delivered in connection therewith, whether as a party, witness or otherwise; and (f) any effort to: (i) monitor the Facilities (ii) evaluate, observe or assess any Obligor or any Personal Guarantor or the affairs of any such Person; and (iii) verify, protect, evaluate, assess, appraise, collect, sell, liquidate or otherwise dispose of the Collateral.
Indemnity:	Each Obligor jointly and severally agree to indemnify and hold the Agent and the Lenders, and their respective employees, officers, directors, professional advisors and agents (each, an "**Indemnified Person**"), harmless from and against any and all suits, actions, proceedings, claims, damages, losses, liabilities and reasonable expenses of any kind or nature whatsoever (including reasonable legal fees and disbursements and other costs of investigation or defence, including those incurred upon any appeal) which may be instituted or asserted against or incurred by any such Indemnified Person as the result of any breach of any representation or warranty, covenant or agreement of the Borrower or any other Obligor, or any Personal Guarantor in this Agreement or any other Credit Document, including without limitation, Environmental Liabilities, the failure to make payment when due of amounts owing pursuant to this Agreement or any other Credit Document, on the due date thereof (whether at the scheduled maturity, by acceleration or otherwise) or any legal, administrative or other actions (including, without limitation, actions brought by any holders of equity or indebtedness of the Borrower or any Obligor or derivative actions brought by any Person claiming through or in such borrower's or any such Obligor's name), proceedings or investigations (whether formal or informal), or written threats thereof, based upon, relating to or arising out of the Credit Documents, the transactions contemplated thereby, or any Indemnified person's role therein or in the transaction contemplated thereby, including any and all product liabilities, Environmental Liabilities, taxes and reasonable legal costs and expenses arising out of or incurred in connection with any dispute between or among any parties to any of the Credit Documents (collectively, "**Indemnified Liabilities**"), except to the extent that any such Indemnified Liability is finally determined by a court of competent jurisdiction to have resulted from such Indemnified Person's gross negligence or wilful misconduct; provided, further, that if and to the extent that such indemnification is unenforceable for any reason, the Obligors shall make the maximum contribution to the payment and satisfaction of such Indemnified Liabilities which shall be permissible under Applicable Laws. In connection with the obligation of the Obligors to indemnify for expenses as set forth above, the Obligors further agree, upon presentation of appropriate invoices, to reimburse each Indemnified Person for all such expenses (including, without limitation, reasonable fees, disbursements and other charges of counsel and costs of investigation incurred by an Indemnified Person in connection with any Indemnified Liabilities) as they are incurred by such Indemnified Person. The provisions of this Section entitled "Indemnities" shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Facilities, the expiration or termination of the Facilities or the termination of this Agreement or any provision hereof.

Confidentiality: Each Obligor agrees to keep all of the information and terms related to this Agreement confidential. In particular, the existence of this Agreement or the discussions surrounding this Agreement cannot be disclosed to any party, including other creditors, without the Agent's prior written consent (other than to the Obligors and legal counsel and advisors of the Obligors).

Submission to Jurisdiction Each Obligor hereby consents and agrees that the courts located in Toronto, Ontario shall have non-exclusive jurisdiction to hear and determine any claims or disputes between an Obligor and the Agent or any Lender pertaining to this Agreement or any of the other Credit Documents or to any matter arising out of or related to this Agreement or any of the other Credit Documents; that nothing in this Agreement shall be deemed or operate to preclude the Agent or any Lender from bringing suit or taking other legal action in any other jurisdiction to collect the Obligations, to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favour of the Agent or any Lender as the case may be. Each Obligor expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and such Obligor hereby waives any objection which they may have based upon lack of personal jurisdiction, improper venue or forum non conveniens. Each Obligor hereby waives personal service of the summons, complaint and other process issued in any such action or suit and agree that service of such summons, complaint and other process may be made by registered or certified mail addressed to such Obligor at the address set forth in Schedule B of this Agreement and that service so made shall be deemed completed upon the earlier of such Obligor's actual receipt thereof (or refusal) or three (3) Business Days after deposit in the mail, proper postage prepaid.

THE PARTIES HERETO WAIVE ALL RIGHTS TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER ARISING IN CONTRACT, TORT, OR OTHERWISE BETWEEN ANY OBLIGOR AND THE AGENT AND/OR ANY LENDER ARISING OUT OF, CONNECTED WITH, RELATED OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED BETWEEN THEM IN CONNECTION WITH THE CREDIT DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

Judgement Currency: If for the purpose of obtaining judgment in any court it is necessary to convert an amount due hereunder in the currency in which it is due (the "**Original Currency**") into another currency (the "**Second Currency**"), the rate of exchange applied shall be that at which, in accordance with its normal banking procedures, the Agent could purchase, the Original Currency with the Second Currency on the date two (2) Business Days preceding that on which judgment is given. Each Obligor agrees that its obligation in respect of any Original Currency due from it hereunder shall, notwithstanding any judgment or payment in such other currency, be discharged only to the extent that, on the Business Day following the date Agent receives payment of any sum so adjudged to be due hereunder in the Second Currency, Agent may, in accordance with normal banking procedures, purchase the Original Currency with the amount of the Second Currency so paid; and if the amount of the Original Currency so purchased or could have been so purchased is less than the amount originally due in the Original Currency, Obligor jointly and severally agrees as a separate obligation and notwithstanding any such payment or judgment to indemnify the Agent and the Lenders against such loss. The term "rate of exchange" in this Section means the spot rate at which the Agent, in accordance with normal practices, is able on the relevant date to purchase the Original Currency with the Second Currency, and includes any premium and costs of exchange payable in connection with such purchase.

General:

Credit: Each Obligor authorizes the Agent, hereinafter, to obtain such factual and investigative information regarding each Obligor from others as permitted by law, to furnish other consumer credit grantors and credit bureaus such information. The Agent, after completing credit investigations, which it will make from time to time concerning each Obligor, must in its absolute discretion be satisfied with all information obtained, prior to any advance being made under the Facilities.

Each Obligor further authorizes any financial institution, creditor, tax authority, employer or any other person, including any public entity, holding information concerning such Obligor or its assets, including any financial information or information with respect to any undertaking or suretyship given by such Obligor to supply such information to the Agent in order to verify the accuracy of all information furnished or to be furnished from time to time to the Agent and to ensure the solvency of such Obligor at all times.

Non-Merger: The provisions of this Agreement shall not merge with any of the Security, but shall continue in full force and effect for the benefit of the parties hereto. In the event of an inconsistency between this Agreement and other Credit Document, including the Security, the provisions of this Agreement shall prevail.

Further Assurances and Documentation: Each Obligor shall do all things and execute all documents deemed necessary or appropriate by the Agent for the purposes of giving full force and effect to the terms, conditions, undertakings hereof and the Security granted or to be granted hereunder.

Severability: If any provisions of this Agreement is or becomes prohibited or unenforceable in any jurisdiction, such prohibition or unenforceability shall not invalidate or render unenforceable the provision concerned in any other jurisdiction nor shall it invalidate, affect or impair any of the remaining provisions of this Agreement.

Marketing: The Agent shall be permitted to use the name of any Obligor and the amount of the Facilities for advertising purposes.

Governing Law: This Agreement and all agreements arising hereinafter shall, unless be deemed to have been made and accepted in the City of Toronto, Ontario and construed in accordance with and be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Counterparts: This Agreement, the Security and all other Credit Documents arising hereinafter may be executed in any number of separate counterparts by any one or more of the parties thereto, and all of such counterparts taken together shall constitute one and the same instrument. Delivery by any party of an executed counterpart of this Agreement by telecopier, PDF or by other electronic means shall be as effective as delivery of a manually executed counterpart of such party.

Survival: All covenants, agreements, representations and warranties made by the Obligors in the Credit Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Credit Document shall be considered to have been relied upon by the Agent and the Lenders and shall survive the execution and delivery of the Credit Documents and any advances of the Facilities, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Agent may have notice or knowledge of any Event of Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of, or any accrued interest or any other Obligation under this Agreement is outstanding and unpaid and so long as the Facilities have not expired or been terminated.

Notice: Except as otherwise provided herein, whenever any notice, demand, request or other communication shall or may be given to or served upon any party by any other party, or whenever any party desires to give or serve upon any other party any communication with respect to this Agreement, each such communication shall be in writing and shall be deemed to have been validly served, given or delivered: (a) upon the earlier of actual receipt (or refusal thereof) and three (3) Business Days after deposit in the mail, registered or certified mail, return receipt requested, with proper postage prepaid; (b) upon transmission, when sent by telecopy, e-mail or other similar facsimile or electronic transmission (with such telecopy, e-mail or facsimile promptly confirmed by delivery of a copy by personal delivery or mail as otherwise provided in this paragraph) or (c) one (1) Business Day after deposit with a reputable overnight courier with all charges prepaid; or (d) when hand-delivered, all of which shall be addressed to the party to be notified and sent to the address or facsimile number indicated on the first page of this Agreement, in respect of each Obligor, and to Bridging Finance Inc., Attn: Graham Marr or David Sharpe, 77 King Street West Suite 2925, P.O. Box 322, Toronto ON M5K 1K7, Canada or to such other address (or facsimile number) as may be substituted by notice given as herein provided.

Assignment and Syndication: This Agreement when accepted and any commitment to advance, if issued, and the Security in furtherance thereof or any warrant or right may be assigned by the Agent or any Lender as the case may be, or monies required to be advanced may be syndicated by the Agent from time to time. Any Lender may assign or grant participations in all or part of this Agreement or in its interest in the Facilities made hereunder with notice to the Borrower but without any Obligor's consent; provided that an Event of Default shall have occurred and be continuing at such time. For greater certainty, if an Event of Default has not occurred, a Lender or the Agent shall not be permitted to assign or grant participation in all or part of this Agreement or in its interest in the Facilities without prior written consent from the Obligors except that any assignment to or participation by any Person that is an Affiliate of the Agent or otherwise under common ownership or management of the Agent or its Affiliates shall not be prohibited or require the consent of any Obligor at any time provided that the Agent gives prior written notice to the Obligor of such assignment or participation. No Obligor may assign or transfer all or any part of its rights or obligations under this Agreement, any such transfer or assignment being null and void insofar as the Agent or any Lender is concerned and rendering any balance then outstanding under the Facilities immediately due and payable at the option of the Agent. Any information provided to any syndicate members shall be communicated to the members on a confidential basis and shall be maintained by the syndicate members on a confidential basis and used by them solely in connection with the Facilities.

Joint and Several: Where more than one person is liable as an Obligor for any obligation under this Agreement, then the liability of each such person for such obligation is joint and several with each other such person.

Time: Time shall be of the essence in all provisions of this Agreement.

Whole Agreement, Amendments and Waiver: This Agreement, the Security and any other written agreement delivered pursuant to or referred to in this Agreement constitute the whole and entire agreement between the parties in respect of the Facilities. There are no verbal agreements, undertakings or representations in connection with the Facilities. No amendment or waiver of any provision of this Agreement will be effective unless it is in writing signed by each Obligor and the Agent. No failure or delay on the part of the Agent in exercising any right or power hereunder or under any of the Security shall operate as a waiver thereon. No course of conduct by the Agent will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Agreement and the Security or the Agent's rights thereunder.

Conflicts/Paramountcy: In the event of a conflict in or between the provisions of this Agreement and the provisions of any other Credit Document then, notwithstanding anything contained in such other Credit Document, the provisions of this Agreement will prevail and the provisions of such other Credit Document will be deemed to be amended to the extent necessary to eliminate such conflict. If any act or omission is expressly prohibited under a Credit Document (other than this Agreement) but this Agreement does not expressly permit such act or omission, or if any act is expressly required to be performed under a Credit Document (other than this Agreement) but this Agreement does not expressly relieve the applicable Obligor from such performance, such circumstance shall not constitute a conflict in or between the provisions of this Agreement and the provisions of such Credit Document. For greater certainty, the existence of a particular representation, warranty, covenant or other provision in any Credit Document which is not contained in this Agreement shall not be deemed to be a conflict or inconsistency, and that particular representation, warranty, covenant or other provision in the other Credit Document shall continue to apply.

[THIS REST OF THIS PAGE IS INTENTIONALLY BLANK. SIGNATURE PAGE FOLLOWS]

If the terms and conditions of this Agreement are acceptable to you, please sign in the space indicated below and return the signed copy of this Agreement to us. Acceptance may also be effected by facsimile or scanned transmission and in counterpart.

We thank you for allowing us the opportunity to provide you with this Agreement.

Yours truly,

BRIDGING FINANCE INC. as Agent, and as Lender

Per: /s/ Signature
Name:
Title:

I have authority to bind the Corporation.

ACCEPTANCE

Each of the undersigned hereby accepts this Agreement as of the first date written on the first page of this Agreement.

URBAN-GRO, INC.

Per: /s/ signature
Name:
Title:

I/We have authority to bind the Corporation.

URBAN-GRO CANADA TECHNOLOGIES INC.

Per: /s/ signature
Name:
Title:

I/We have authority to bind the Corporation.

IMPACT ENGINEERING, INC.

Per: /s/ signature
Name:
Title:

I/We have authority to bind the Corporation

Schedule A
Definitions

In addition to terms defined elsewhere in this Agreement, the following terms shall have the following meanings:

(a) "**Accounts**" shall mean with respect to obligations of an account debtor domiciled in Canada all "accounts," as such term is defined in the PPSA, and with respect to obligations of any account debtor domiciled in the United States of America, an "Account" as such term is defined in the UCC.

(b) "**Advance**" means an advance by the Lender to the Borrower pursuant to any Facility under this Agreement.

(c) "**Affiliate**" means an "affiliate" or "associate" of the subject person or persons (as such terms are defined in the rules and regulations promulgated under the *Securities Act* (Ontario)

(d) "**Applicable Laws**" means, with respect to any person, property, transaction or event, all present or future statutes, regulations, rules, orders, codes, treaties, conventions, judgments, awards, determinations and decrees of any governmental, regulatory, fiscal or monetary body or court of competent jurisdiction, in each case, having the force of law in any applicable jurisdiction.

(e) "**BIA**" shall mean the *Bankruptcy and Insolvency Act* (Canada), and any successor act or statute, as in effect from time to time or at any time.

(f) "**Business Day**" means any day other than a Saturday or a Sunday or any other day on which banks are closed for business in Toronto.

(g) "**Canadian Anti-Terrorism Laws**" shall mean all laws of Canada, or any province, territory or political subdivision thereof relating to the prevention of money laundering and terrorist financing including without limitation the *Criminal Code* (Canada), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada), the *United Nations Suppression of Terrorism Regulations and the Anti-terrorism Act* (Canada) and all regulations and orders made thereunder

(h) "**Canadian Dollars**", "**CAD$**" or "**$**" shall mean the lawful currency of Canada.

(i) "**Collateral**" means all of the Obligors' real and personal property.

(j) "**Change of Control**" means an event whereby any person or group of persons acting jointly or in concert (within the meaning of such phase in the*Securities Act* (Ontario)) shall beneficially own or control, directly or indirectly, equity interests in the capital of an Obligor which have or represent more than 51% of the votes that may be cast to elect the directors or other persons charged with the management and direction of such Obligor.

(k) "**Closing Date**" means the date of this Agreement.

(l) "**Code**" means the Internal Revenue Code.

(m) "**Common Purchase Order Eligibility Criteria"** means:

(i) The full payment in respect of such equipment or services, as the case may be is required to made by the customer to the Borrower no later than six (6) months after the date of such order form;

(ii) The equipment or services being sold by the Borrower is of a type that is typically sold by the Borrower in its ordinary course of business;

(iii) The purchaser of such equipment or services is a third party and not an Affiliate of any Obligor;

(iv) The purchase of equipment or services set out in the purchase order is a valid and binding contractual obligation of the purchaser;

(v) The terms and conditions set out in such purchase order are on the Borrower's standard terms and conditions which are consistent with the standards of the industry of the Borrower generally;

(vi) The customer is a resident of Canada or the United States or, if not a natural person has its principal place of business and head office in Canada or the United States;

(vii) The customer is not a federal, state or provincial government or a political subdivision thereof, unless the Agent has agreed to the contrary in writing;

(viii) No default has occurred in respect of the purchase order, including without limitation on account of delays in delivery of the subject equipment or services;

(ix) The Borrower does not have knowledge, or would reasonably be expected to have knowledge that the customer is unlikely to pay less than 95% of invoiced amount set out in such purchase order within six months of the date of purchase order for any reason, including without limitation on account of creditworthiness of the customer, attempts to terminate or repudiate the agreement, or expressed dissatisfaction with the equipment or services;

(x) The Borrower does not have knowledge, or would reasonably be expected to have knowledge that it will be unable to satisfy one or more material terms in such purchase order;

(xi) The underlying customer has not prepaid any amount owing to the Borrower in respect of such purchase order that has not been specifically disclosed in writing to the Agent;

(xii) The Borrower has not agreed to discount the amount payable by the Customer to the Borrower initially set out in the purchase order; and

(xiii) If the purchase order in not in compliance with all of the above criteria, it is otherwise agreed to by the Agent in writing.

(n) "**Credit Document**" means this Agreement, the Security, and all other security agreements, hypothecs, mortgages, documents, instruments, certificates, and notices at any time delivered by any person (other than the Agent and its affiliates) in connection with any of the foregoing, as the same may be amended, modified, restated or replaced from time to time.

(o) "**Eligible Accounts Receivable**" has the meaning ascribed thereto in Schedule "H".

(p) "**Eligible Inventory**" shall mean as at the date of determination, all Inventory of the Borrower that;

(i) is not subject to any Encumbrances other than (i) Permitted Encumbrances which are in favour of the Agent or have been subordinated on terms satisfactory to the Agent to Encumbrances in favour of the Agent or which otherwise rank in priority behind the Encumbrances in favour of Agent;

(ii) is located on premises owned or operated by an Obligor and located on premises with respect to which the Agent has received a landlord, bailee or mortgagee letter acceptable in form and substance to the Agent or, in the sole discretion of the Agent, in respect of which the Agent has established an appropriate reserve;

(iii) is of good and merchantable quality, free from any defects and is not obsolete, unsalable, shopworn, damaged, unfit for further processing or of substandard quality, in Agent's good faith credit judgment;

(iv) does not consist of: (i) discontinued items, (ii) slow-moving or excess items, or (iii) used items held for resale;

(v) meets all standards imposed by any Governmental Authority, including with respect to its production, acquisition or importation (as the case may be);

(vi) is not placed by the Borrower on consignment or held by the Borrower on consignment from another Person;

(vii) is not held for storage by or on behalf of any Obligor;

(viii) does not meet or violate any warranty, representation or covenant contained in this Agreement or any other Credit Document;

(ix) does not require the consent of any Person for the completion or manufacture, sale or other disposition of such Inventory by Agent and such completion, manufacture or sale does not constitute a breach or default under any contract or agreement to which any Obligor is a party or to which such Inventory is or may become subject;

(x) is not subject to unpaid suppliers' repossession rights; and

(q) is otherwise acceptable in the good faith discretion of the Agent, provided that, the Agent shall have the right to create and adjust eligibility standards and related reserves from time to time in its good faith discretion.

(r) "**Eligible Signed Equipment Order Forms**" or an "**EOF**" means a committed agreement to purchase equipment to be delivered by the Borrower to a customer, that satisfies all of the Common Purchase Order Eligibility Criteria;

(s) "**Eligible Signed Professional Services Order Forms**" or a "**PSOF**" means a committed agreement to purchase services to be delivered by the Borrower to a customer, that satisfies all of the Common Purchase Order Eligibility Criteria.

(t) **"Encumbrances"** means any mortgage, Lien, pledge, assignment, charge, security interest, title retention agreement, hypothec, levy, execution, seizure, attachment, garnishment, right of distress or other claim in respect of property of any nature or kind whatsoever howsoever arising (whether consensual, statutory or arising by operation of law or otherwise) and includes arrangements known as sale and lease-back, sale and buy-back and sale with option to buy-back or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the PPSA or UCC (or equivalent statutes) of any jurisdiction.

(u) "**Environmental Laws**" shall mean all federal, provincial, state, municipal and local laws, statutes, ordinances, programs, permits, guidance, orders, decrees and regulations, now or hereafter in effect, and in each case as amended or supplemented from time to time, and any applicable judicial interpretation thereof relating to the regulation and protection of human health, safety, the environment and natural resources (including ambient air, surface water, groundwater, wetlands, land surface or subsurface strata, wildlife, aquatic species and vegetation).

(v) "**Environmental Liabilities**" shall mean all liabilities, obligations, responsibilities, remedial actions, removal costs, losses, damages of whatever nature, costs and expenses (including all reasonable fees, disbursements and expenses of counsel, experts and consultants and costs of investigation and feasibility studies), fines, penalties, sanctions and interest incurred as a result of any claim, suit, action or demand of whatever nature by any person and which relate to any health or safety condition regulated under any Environmental Law, environmental permits or in connection with any Release, threatened Release, or the presence of a Hazardous Material.

(w) "**ERISA**" means Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

(x) "**ERISA Affiliate**" means an entity whether or not incorporated, that is under or is deemed to be under common control with an Obligor within the meaning of ERISA Section 4001 or is part of a group that includes the Borrowers and that is treated as a single employer under §414 of the Code.

(y) "**ERISA Event**" shall mean any one of the following (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) any failure by any Plan to satisfy the minimum funding standard (within the meaning of Sections 412 and 430 of the Code or Section 302 of ERISA) applicable to such Plan, in each case whether or not waived; (c) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA, of an application for a waiver of the minimum funding standard with respect to any Plan; (d) a determination that any Plan is, or is expected to be, in "at-risk" status (as defined in Section 303(i)(4) of ERISA or Section 430(i)(4) of the Code); (e) the incurrence by an Obligor or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (f) the receipt by an Obligor or any ERISA Affiliate from the Pension Benefit Guaranty Corporation or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (g) the incurrence by an Obligor or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (h) the receipt by an Obligor or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from an Obligor or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA, or is in endangered or critical status, within the meaning of Section 305 of ERISA.

(z) "**EPA**" shall mean the *Environmental Protection Act* (Ontario) and the similar laws of Canada and any other province where any Collateral may be located, and any successor law or statute, as in effect from time to time or at any time.

(aa) "**FSCO**" means the Financial Services Commission of Ontario, or the BC Financial Services Authority and any person succeeding to the functions thereof and includes the Superintendent under the PBA and any other public authority empowered or created by the PBA.

(bb) "**GAAP**" shall mean International Financial Reporting Standards or other generally accepted accounting principles in Canada or the United States applicable to any Obligor as in effect from time to time.

(cc) "**Governmental Authority**" means any national or federal government, any provincial, state, regional, local or other political subdivision thereof with jurisdiction and any person with jurisdiction exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

(dd) "**Hazardous Material**" shall mean any substance, material or waste which is regulated by or forms the basis of liability now or hereafter under, any Environmental Laws, including any material or substance which is: (i) defined as a "solid waste," "hazardous waste," "hazardous material," "hazardous substance," "extremely hazardous waste," "restricted hazardous waste," "pollutant," "contaminant," "hazardous constituent," "special waste," "toxic substance" or other similar term or phrase under any Environmental Laws; (ii) petroleum or any fraction or by-product thereof, asbestos, polychlorinated biphenyls (PCB's); or (iii) any radioactive substance.

(ee) "**Insured Accounts Receivable**" means Eligible Accounts Receivable that are insured with an insurer which is acceptable to Agent on terms satisfactory to the Agent in its sole discretion.

(ff) "**Inventory**" shall mean "inventory," as such term is defined in the PPSA in respect of inventory in Canada or the UCC in respect of inventory located in the United States, now or hereafter owned or acquired by any Person, wherever located.

(gg) "**Investment Grade Receivables**" means Eligible Accounts Receivable that are payable by an account debtor whose long-term unsecured and unsubordinated indebtedness has been rated as follows by 2 of the 3 rating agencies below:

(a) S&P: >BBB-

(b) Moody's: >Baa3

(c) DBRS: ≥ BBB-

(hh) "**Lien**" shall mean, whether based on common law, statute or contract, whether choate or inchoate, whether or not crystallized or fixed, whether or not for amounts due or accruing due: (i) any mortgage, security deed or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, security title, deemed trust, requirement to pay, easement, reservation, exception, encroachment, privilege, title exception, garnishment right, prior claim or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement and any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the PPSA, the UCC or comparable law of any jurisdiction); and (ii) any rights of repossession or similar right of an unpaid supplier.

(ii) **"Material Adverse Change"** means any change, condition or event which, when considered individually or together with other changes, conditions, events or occurrences could reasonably be expected to have a Material Adverse Effect.

(jj) **"Material Adverse Effect"** means a material adverse effect on (i) the business, properties, operations, assets, or condition (financial or otherwise) of the Obligors (taken as a whole); (ii) on the rights and remedies of the Agent or the Lenders under this Agreement and the Security; (iii) on the ability of any Obligor to perform its obligations under this Agreement or any Credit Document; or (iv) on the legality, validity, binding effect or enforceability of the Encumbrances created by the Security Agreements.

(kk) "**Obligations**" means all obligations of the Obligors to the Agent or the Lenders existing from time to time, pursuant to or in connection with this Agreement (as amended, modified, restated or replaced from time to time) and any other Credit Documents, including, without limitation any unpaid fees, accrued and unpaid interest outstanding principal, indemnity obligations and reimbursement obligations.

(ll) "**OFAC**" means the Office of Foreign Assets Control of the U.S. Department of the Treasury.

(mm) "**PBA**" shall mean the *Pension Benefits Act* (Ontario), the *Pension Benefits Standards Act* (British Columbia) and the similar laws of any other province or territory of Canada, as in effect from time to time or at any time.

(nn) "**Pension Event**" shall mean: (i) the existence of any unfunded liability or windup or withdrawal liability, including contingent withdrawal or windup liability, or any solvency deficiency in respect of any Plan; (ii) the whole or partial termination or windup of any Plan or occurrence of any act, event or circumstance which could give rise to the whole or partial termination or windup of any Plan; (iii) the failure to make any contribution or remittance in respect of any Plan when due; (iv) the failure to file any report, actuarial valuation, return, statement or other document, when due, in respect of any Plan; (v) the existence of any Lien except in respect of current contribution amounts not due in connection with any Plan; or (vi) the establishment or commencement to contribute to any Plan not in existence on the date thereof; or any violation of, or non-compliance with, any of the rules or regulations contained in the Employee Retirement Income Security Act of 1974 as same may be amended from time to time;

(oo) **"person"** includes a natural person, a partnership, a joint venture, a trust, a fund, an unincorporated organization, a company, a corporation, an association, a government or any department or agency thereof, and any other incorporated or unincorporated entity.

(pp) "**Permitted Debt**" has the meaning given to such term in Representation (xxiv).

(qq) "**Permitted Encumbrance**" means:

(i) Encumbrances for taxes, assessments or governmental charges or levies on its real property if the same shall not at the time be delinquent or thereafter can be paid without penalty, or are being contested in good faith and by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books, so long as such Obligor's title to, and its right to use, its Real Property are not materially adversely affected thereby;

(ii) Encumbrances imposed by law, such as carriers', warehousemen's and mechanics' liens and other similar Encumbrances arising in the ordinary course of business which secure payment of obligations not more than 45 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been set aside on its books, so long as such Obligor's title to, and its right to use, its real property are not materially adversely affected thereby;

(iii) Encumbrances arising out of pledges or deposits under worker's compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation;

(iv) Utility easements, building restrictions and such other encumbrances or charges against real property as are of a nature generally existing with respect to properties of a similar character and (ii) minor defects in title, in each case, which do not materially interfere with the conduct of the Obligors' business or the utilization thereof in the business of any Obligor;

(v) Encumbrances securing the Obligations;

(vi) Encumbrances securing capital lease obligations and purchase money indebtedness permitted by this agreement, provided that (i) such Encumbrances shall be created substantially simultaneously with the acquisition or lease of the related asset, (ii) such Encumbrances do not at any time encumber any property other than the property financed by such indebtedness, (iii) the amount of indebtedness secured thereby is not increased and

(iv) the principal amount of indebtedness secured by any such Encumbrance shall at no time exceed one hundred percent (100%) of the original purchase price of such property at the time it was acquired;

(vii) Encumbrances arising out of judgments, attachments or awards not contrary to Event of Default '(xiii)" or securing appeal or other surety bonds relating to such judgments;

(viii) Encumbrances (i) incurred in the ordinary course of business to secure the performance of tenders, statutory obligations (other than excise taxes), surety, stay, customs and appeal bonds, statutory bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money) or (ii) arising by virtue of deposits made in the ordinary course of business to secure liability for premiums to insurance carriers;

(ix) bankers' Encumbrances, rights of setoff and other similar Encumbrances existing solely with respect to cash and cash equivalent investments on deposit in one or more accounts maintained by any Loan Party or its Subsidiaries, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements;

(x) the filing of PPSA or UCC financing statements solely as a precautionary measure in connection with operating leases otherwise permitted hereunder;

(xi) Encumbrances existing on the date of this Agreement the details of which are set out in Schedule "E" hereto;

(xii) servitudes, easements, rights-of-way, restrictions and other similar encumbrances on real property imposed by applicable law or incurred in the ordinary course of business and encumbrances consisting of zoning or building restrictions, by-laws, easements, licenses, restrictions on the use of property or minor defects or imperfections in title thereto which, in the aggregate, are not material, and which do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of any Obligor;

(xiii) title defects or irregularities which are of a minor nature and in the aggregate do not materially impair the use or value of the property subject thereto;

(xiv) the rights reserved to or vested in governmental authorities by statutory provisions or by the terms of leases, licenses, franchises, grants or permits, which affect any land, to terminate the leases, licenses, franchises, grants or permits or to require annual or other periodic payments as a condition of the continuance thereof;

(xv) securities to public utilities or to any municipalities or governmental authorities or other public authority when required by the utility, municipality or governmental authorities or other public authority in connection with the supply of services or utilities to any Loan Party;

(xvi) the reservations, limitations, provisos and conditions, if any, expressed in any original grants from the Crown;

(xvii) Encumbrances in respect of operating leases entered into in the ordinary course of the business of any Obligor; provided that such Encumbrances do not extended to any other property of any Obligor;

(xviii) any Encumbrances consented to by the Agent and Encumbrances subject to a subordination or intercreditor agreement which the Agent is a signatory;

(rr) "**Person**" means an individual, sole proprietorship, corporation, limited liability company, trust, joint venture, association, company, partnership, institution, public benefit corporation, investment or other fund, Governmental Authority or other entity, and pronouns have a similarly extended meaning.

(ss) "**Plan**" shall mean any employee pension benefit plan which any Obligor or any ERISA Affiliate of any Obligor sponsors or maintains or to which it makes or is making or is required to make contributions, and includes (i) any pension or benefit plan regulated by the FSCO or similar authority or otherwise subject to the PBA, (ii) any "multiemployer plan" (as defined in ERISA Section 3(37)); or (iii) any other employee pension benefit plan subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Obligor or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

(tt) **"PPSA**" means the *Personal Property Security Act* (Ontario) as the same may be amended from time to time.

(uu) **"Prime Rate"** means the annual rate of interest established by The Bank of Nova Scotia and in effect on such day as the reference rate used to determine the rate of interest changed on Canadian dollar loans to commercial customers in Canada and designated by The Bank of Nova Scotia as its Prime Rate.

(vv) "**Related Party Contracts**" means those contracts, agreements and other documents involving one or more Obligors and referenced in Schedule "D";

(ww) "**Release**" shall mean, as to any Obligor, any release, spill, emission, leaking, pumping, injection, deposit, disposal, discharge, dispersal, dumping, leaching or migration of Hazardous Materials in the indoor or outdoor environment by such Person, including the movement of Hazardous Materials through or in the air, soil, surface water, ground water or property;

(xx) "**Restricted Payment**" shall mean: (i) the declaration or payment of any dividend or the incurrence of any liability to make any other payment or distribution of cash or other property or assets on or in respect of Borrower's or any other Obligor's capital stock or partnership units; (ii) any payment or distribution made in respect of any subordinated indebtedness of Borrower or any other Obligor in violation of any subordination or other agreement made in favour of Agent, but subject in all cases to the subordination, priority or intercreditor agreement with Agent; (iii) any payment on account of the purchase, redemption, defeasance or other retirement of Borrower's or any other Obligor's capital stock (including partnership units) or (iv) debt for borrowed money owed to the holder of any capital stock of any Obligors, or any other payment, voluntary prepayment or distribution made in respect thereof, either directly or indirectly other than: (a) that arising under this Agreement, (b) remuneration paid to employees, officers and directors in the ordinary course of business and in amounts consistent with past practice, (c) any amounts and payments specifically set out in Schedule "D" hereto, and (d) any other amounts and payments that the Agent may consent to in writing after the date hereof;

(yy) "**Sanctioned Entity**" shall mean (a) a country or a government of a country, (b) an agency of the government of a country, (c) an organization directly or indirectly controlled by a country or its government, (d) a person resident in or determined to be resident in a country, in each case, that is subject to a country sanctions program on the list maintained and published by OFAC and available at http://www.treas.gov/offices/enforcement/ofac/programs, or as otherwise published from time to time as such program may be applicable to such country, agency, organization or person

(zz) "**Sanctioned Person**" means a person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/offices/enforcement/ofac/sdn/index.html, or as otherwise published from time to time.

(aaa) "**Solvent**" means, with respect to any Obligor, that as of the date of determination, (a) the sum of such Obligor's debt and other liabilities (including contingent liabilities) does not exceed the present fair saleable value of such Obligor's present assets as of such date, (b) such Obligor's capital is not unreasonably small in relation to its business as contemplated on such date and reflected in the Projections or with respect to any transaction contemplated to be undertaken after such date, (c) such Obligor has not incurred and does not intend to incur, or believe (nor should it reasonably believe) that it will incur, debts and liabilities (including contingent liabilities) beyond its ability to pay such debts and liabilities as they become due (whether at maturity or otherwise) and (d) such Obligor is "solvent" within the meaning given to that term and similar terms under applicable law relating to liquidation, administration, conservatorship, bankruptcy, insolvency, assignment for the benefit of creditors, moratorium, receivership, winding-up, dissolution, reorganization, restructuring, recapitalization, arrangement or rearrangement, or other similar debtor relief law from time to time in effect, including without limitation the *Bankruptcy and Insolvency Act* (Canada), the *Companies' Creditors Arrangement Act* (Canada), the *Canada Business Corporations Act* (Canada), the *Corporations Act 2001* (Cth), the *Bankruptcy Act 1966* (Cth) and the Bankruptcy Code and applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under GAAP).

(bbb) "**to the knowledge of**" means, with respect to the applicable person, the current, actual knowledge of such person as to the particular matters stated.

(ccc) "**UCC**" shall mean the Uniform Commercial Code of the State of Colorado in effect from time to time.

(ddd) "**US$**" or "**USD$**" means U.S. dollars.

(eee) "**United States**" and "**U.S.**" mean the United States of America.

(fff) **"WEPPA Claims"** means any claims made against each Obligor pursuant to the *Wage Earner Protection Program Act*, S.C. 2005, c. 47, s.1, as the same may be amended, restated or replaced from time to time.

(ggg) "**Withdrawal Liability**" shall mean liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

Words importing the singular include the plural thereof and vice versa and words importing gender include the masculine, feminine and neuter genders.

Schedule "B"
Factual Matters Concerning the Obligors

Schedule "C"
Capitalization

Schedule "D"
Related Party Contracts and Permitted Restricted Payments

Schedule "E"
Permitted Debt

Schedule "F"
Bank Accounts

Schedule "G"
Permitted Encumbrances

Schedule "H"
Eligible Receivables

"**Eligible Accounts Receivable**" shall mean as at the date of determination, all Accounts of the Borrower, except any Account:

(a) that does not arise from the sale of goods or the performance of services by an Obligor in the ordinary course of such Obligor's business;

(b) that does not result from an equipment order or design contract from a client of an Obligor;

(c) where the underlying account debtor has not been credit approved by the Agent;

(d) upon which: (i) Obligor's right to receive payment is not absolute or is contingent upon the fulfillment of any condition whatsoever; or (ii) Obligor is not able to bring suit or otherwise enforce its remedies against the Account Debtor through judicial process;

(e) to the extent of any concessions, offsets (including all deposits received), deductions, contras, right of returns, chargebacks or understandings with the account debtor therein that in any way could reasonably be expected to adversely affect the payment of, or the amount of, such Account;

(f) with respect to which an invoice, acceptable to Agent in form and substance, has not been sent to the account of the debtor;

(g) that is not owned by a Obligor or is subject to any right, claim, or interest of another Person, other than Permitted Encumbrances which are in favour of the Agent or have been subordinated on terms satisfactory to the Agent to Liens in favour of Agent or which otherwise rank in priority behind the Liens in favour of the Agent

(h) that arises from a sale to or performance of services for an employee, director, Affiliate, Subsidiary or shareholder of the Borrower or any other Obligor, or an entity which has common officers or directors with Borrower or any other Obligor;

(i) that is the obligation of an Account Debtor that is the federal, state or provincial government or a political subdivision thereof, unless the Agent has agreed to the contrary in writing;

(j) that is the obligation of an Account Debtor located other than in Canada or the continental United States;

(k) that is the obligation of an Account Debtor to whom a Obligor is or may become liable for goods sold or services rendered by the Account Debtor to a Obligor, to the extent of the Obligors' collective liability to such Account Debtor;

(l) that arises with respect to goods which are delivered on a cash-on-delivery basis or placed on consignment, guaranteed sale or other terms by reason of which the payment by the Account Debtor may be conditional;

(m) that is an obligation for which the total unpaid Accounts of the Account Debtor exceed 15% (or such other amount as determined by Agent in its discretion) of the aggregate of all gross Accounts as related to accounts receivable (excluding any inter-company accounts receivable), to the extent of such excess;

(n) that is not paid within ninety (90) days from its invoice date,

(o) in respect an invoice, if greater than 50% of the amount of such invoice remains outstanding on the date that is sixty (60) days from its invoice date, such invoice shall not be an Eligible Accounts Receivable;

(p) that is an obligation of an Account Debtor that has suspended business, made a general assignment for the benefit of creditors, is unable to pay its debts as they become due or as to which a petition has been filed (voluntary or involuntary) under any law relating to bankruptcy, insolvency, reorganization or relief of debtors;

(q) that arises from any bill-and-hold or other sale of goods which remain in a Obligor's possession or under a Obligor's control;

(r) as to which Agent's interest therein is not a first priority perfected security interest and Lien,

(s) to the extent that such Account exceeds any credit limit established by Agent in Agent's discretion;

(t) as to which any of Obligor's representations or warranties pertaining to Accounts are untrue;

(u) that represents interest payments, late or finance charges, or service charges owing to an Obligor;

(v) with respect to which the Account Debtor is located in any state of the United States or province of Canada which requires the filing of a Notice of Business Activities Report or registration or licensing to carry on business or similar report, registration or licensing in order to permit an Obligor to seek judicial enforcement in such state of the United States or province of Canada of payment of such Account, unless such Obligor has qualified to do business in such state or has filed a Notice of Business Activities Report or registration or licensing to carry on business or equivalent report, registration or licensing for the then current year; or

(w) that is not otherwise acceptable in the discretion of the Agent, provided, that Agent shall have the right to create and adjust eligibility standards and related reserves from time to time in its good faith discretion.

EXHIBIT 10.12

PROMISSORY NOTE

$1,000,000 **Lafayette, Colorado**
October 18, 2018

FOR VALUE RECEIVED, and subject to the terms and conditions set forth herein, urban-gro, Inc. a Colorado corporation (the **"Borrower"**), hereby unconditionally promises to pay to the order of James Lowe or his assigns (the **"Noteholder"**, and together with the Borrower, the "**Parties"**), the principal amount of One million dollars ($1,000,000) (the **"Loan"**), together with all accrued interest thereon, as provided in this Promissory Note (the **"Note")**, as the same may be amended, restated, supplemented or otherwise modified from time to time in accordance with its terms).

1. Definitions. Unless otherwise defined herein, capitalized terms used herein shall have the meanings set forth in this *Section 1*.

"Applicable Rate" means the rate equal to an annual percentage rate of 12%.

"Business Day" means a day other than a Saturday, Sunday or other day on which commercial banks in Denver, CO are authorized or required by law to close.

"Default" means any of the events specified in *Section 7* which constitutes an Event of Default or which, upon the giving of notice, the lapse of time, or both pursuant to *Section 7* would, unless cured or waived, become an Event of Default.

'Default Rate" means, at any time, the Applicable Rate plus 2%. **"Event of Default"** has the meaning set forth in *Section 7*.

"Interest Payment Date" means the 30th day of each month commencing on the first such date to occur after the execution of this Note, except for the month of February, which shall be the last day of said month.

"Law" as to any Person, means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any Governmental Authority and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"Maturity Date" means the date on which all amounts under this Note shall become due and payable pursuant to *Section 2*.

"Order" as to any Person, means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other Governmental Authority, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"Origination Fee" means a one-time fee payable by the Borrower to the Noteholder in the amount of $12,500, paid as additional consideration for the Loan.

"Person" means any individual, corporation, limited liability company, trust, joint venture, association, company, limited or general partnership, unincorporated organization, Governmental Authority or other entity.

2. Payments & Maturity Date.

2.1 Payment Schedule. During the term of this Note, interest only payments equal to 1% of the then outstanding principal balance of this Note shall be due and payable in arrears to the Noteholder on each Interest Payment Date. The aggregate unpaid principal amount of the Loan, all accrued and unpaid interest and all other amounts payable under this Note shall be due and payable on the Maturity Date.

2.2 Optional Prepayment. The Borrower may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. No prepaid amount may be re-borrowed.

2.3 Maturity Date. The Note matures on April 30, 2019.

2.4 Additional Consideration. In addition to the interest payable on the Loan, the Borrower shall issue an option to purchase up to 30,000 shares of its Common Stock to the Noteholder or his assigns. At an exercise price of $1.20 per share. A copy of the applicable Option Agreement is attached hereto and incorporated herein as if set forth as Exhibit "A".

A. 2.5 Right to Cure. In the event Borrower fails to make payment of principal and/or interest after such payment is due and payable under this Note and Borrower shall have the right to cure such default within sixty (60) days from such default.

3. Personal Guaranty. This Note will be guaranteed by each of Brad Nattrass and Octavio Gutierrez (the "**Guarantors**") under the terms of this Note and the Guaranty Agreement attached hereto as Exhibit "B". This personal guaranty by the Guarantors is a guaranty of payment and not of collection.

4. Interest. Except as otherwise provided herein, the outstanding principal amount of the Loan made hereunder shall bear interest at the Applicable Rate from the date the Loan was made until the Loan is paid in full, whether at maturity, upon acceleration, by prepayment or otherwise. If any amount payable hereunder is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such overdue amount shall bear interest at the Default Rate from the date of such non-payment until such amount is paid in full. All computations of interest shall be made on the basis of a year of 365/366 days, as the case may be, and the actual number of days elapsed. Interest shall accrue on the Loan on the day on which such Loan is made, and shall not accrue on the Loan on the day on which it is paid.

5. Payment Mechanics.

5.1 Manner of Payment. All payments of interest and principal shall be made in lawful money of the United States of America no later than 3:00 PM within three business days from the date on which such payment is due by cashier's check, certified check or by wire transfer of immediately available funds to the Noteholder's account at a bank specified by the Noteholder in writing to the Borrower from time to time.

5.2 Application of Payments. All payments made hereunder shall be applied first, to the payment of any fees or charges outstanding hereunder, second, to accrued interest and third, to the payment of the principal amount outstanding under the Note.

5.3 Business Day Convention. Whenever any payment to be made hereunder shall be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day and such extension will be taken into account in calculating the amount of interest payable under this Note.

6. Representations and Warranties. The Borrower hereby represents and warrants to the Noteholder on the date hereof as follows:

6.1 Existence. The Borrower is (a) a corporation duly formed, validly existing and in good standing under the laws of the state of its jurisdiction of organization.

6.2 Power and Authority. The Borrower has the power and authority, and the legal right, to execute and deliver this Note and to perform its obligations hereunder.

6.3 Authorization; Execution and Delivery. The execution and delivery of this Note by the Borrower and the performance of its obligations hereunder have been duly authorized by all necessary limited liability action in accordance with all applicable Laws. The Borrower has duly executed and delivered this Note.

6.4 No Approvals. No consent or authorization of, filing with, notice to or other act by, or in respect of, any Governmental Authority or any other Person is required in order for the Borrower to execute, deliver, or perform any of its obligations under this Note.

6.5 No Violations. The execution and delivery of this Note and the consummation by the Borrower of the transactions contemplated hereby do not and will not (a) violate any provision of the Borrower's organizational documents; (b) violate any Law or Order applicable to the Borrower or by which any of its properties or assets may be bound; or (c) constitute a default under any material agreement or contract by which the Borrower may be bound.

6.6 Enforceability. The Note is a valid, legal and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

7. Events of Default. The occurrence of any of the following shall constitute an Event of Default hereunder:

7.1 Failure to Pay. The Borrower fails to pay (a) any principal amount of the Loan when due; or (b) interest or any other amount when due and such failure continues for sixty (60) days after written notice to the Borrower.

7.2 Breach of Representations and Warranties. Any representation or warranty made or deemed made by the Borrower to the Noteholder herein is incorrect in any material respect on the date as of which such representation or warranty was made or deemed made.

7.3 Bankruptcy.

(a) the Borrower commences any case, proceeding or other action (i) under any existing or future law relating to bankruptcy, insolvency, reorganization, or other relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it as bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (ii) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or the Borrower makes a general assignment for the benefit of its creditors;

(b) there is commenced against the Borrower any case, proceeding or other action of a nature referred to in clause (a) above which (i) results in the entry of an order for relief or any such adjudication or appointment or (ii) remains undismissed, undischarged or unbonded for a period of 90 days;

(c) there is commenced against the Borrower any case, proceeding or other action seeking issuance of a warrant of attachment, execution or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which has not been vacated, discharged, or stayed or bonded pending appeal within 90 days from the entry thereof;

(d) the Borrower takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (a), (b) or (c) above; or

(e) the Borrower is generally not, or is unable to, or admits in writing its inability to, pay its debts as they become due.

7.4 Judgments. A judgment or decree is entered against the Borrower and such judgment or decree has not been vacated, discharged, stayed or bonded pending appeal within 90 days from the entry thereof.

8. Remedies. Upon the occurrence of an Event of Default and at any time thereafter during the continuance of such Event of Default, the Noteholder may at its option, by written notice to the Borrower (a) declare the entire principal amount of this Note, together with all accrued interest thereon and all other amounts payable hereunder, immediately due and payable and/or (b) exercise any or all of its rights, powers or remedies under applicable law; *provided, however* that, if an Event of Default described in *Section 7.3* shall occur, the principal of and accrued interest on the Loan shall become immediately due and payable without any notice, declaration or other act on the part of the Noteholder.

9. Miscellaneous.

9.1 Notices. All notices, requests or other communications required or permitted to be delivered hereunder shall be delivered in writing to such address as a Party may from time to time specify in writing. Notices if (i) mailed by certified or registered mail or sent by hand or overnight courier service shall be deemed to have been given when received, (ii) sent by facsimile during the recipient's normal business hours shall be deemed to have been given when sent (and if sent after normal business hours shall be deemed to have been given at the opening of the recipient's business on the next business day) and (iii) sent by e-mail shall be deemed received upon the sender's receipt of an acknowledgment from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgment).

9.2 Expenses. Each Party shall bear its own expenses incurred in connection with the transactions contemplated hereby including the negotiation, documentation and execution of this Note. In any action arising out of this Note, the prevailing party shall be entitled to receive reasonable attorneys' fees and costs from the non-prevailing party.

9.3 Governing Law. This Note and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Note and the transactions contemplated hereby shall be governed by the laws of the State of Colorado.

9.4 Submission to Jurisdiction. The Parties hereby irrevocably and unconditionally agrees that any legal action, suit or proceeding arising out of or relating to this Note may be brought in the courts of the State of Colorado in Boulder, CO or of the United States of America in Denver, CO and submits to the exclusive jurisdiction of any such court in any such action, suit or proceeding. Final judgment against the Borrower in any action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment. Nothing in this *Section 9.4* shall affect the right of the Noteholder to (i) commence legal proceedings or otherwise sue the Borrower in any other court having jurisdiction over the Borrower or (ii) serve process upon the Borrower in any manner authorized by the laws of any such jurisdiction.

9 . 5 Venue. The Borrower irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Note in any court referred to in *Section 9.4* and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

9.6 Waiver of Jury Trial THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE OR THE TRANSACTIONS CONTEMPLATED HEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

9 . 7 Counterparts; Integration; Effectiveness. This Note and any amendments, waivers, consents or supplements hereto may be executed in counterparts, each of which shall constitute an original, but all taken together shall constitute a single contract. This Note constitute the entire contract between the Parties with respect to the subject matter hereof and supersede all previous agreements and understandings, oral or written, with respect thereto. Delivery of an executed counterpart of a signature page to this Note by facsimile or in electronic (i.e., “pdf” or “tif”) format shall be effective as delivery of a manually executed counterpart of this Note.

9.8 Successors and Assigns. This Note may be assigned, transferred or negotiated by the Noteholder to any Person at any time without notice to or the consent of the Borrower. The Borrower may not assign or transfer this Note or any of its rights hereunder without the prior written consent of the Noteholder. This Note shall inure to the benefit of and be binding upon the parties hereto and their permitted assigns.

9 . 9 Waiver of Notice. The Borrower hereby waives presentment, demand for payment, protest, notice of dishonor, notice of protest or nonpayment, notice of acceleration of maturity and diligence in connection with the enforcement of this Note or the taking of any action to collect sums owing hereunder.

9.10 Amendments and Waivers. No term of this Note may be waived, modified or amended except by an instrument in writing signed by both of the parties hereto. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

9.11 Headings. The headings of the various Sections and subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

9.12 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising on the part of the Noteholder, of any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

9.13 Severability. If any term or provision of this Note is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or invalidate or render unenforceable such term or provision in any other jurisdiction.

[Signature Page Follows]

IN WITNESS WHEREOF, the Borrower has executed this Note as of October ___, 2018.

urban-gro, Inc.

By: /s/ Brad Nattrass
Brad Nattrass, Chief Executive Officer

EXHIBIT B:

GUARANTY AGREEMENT

GUARANTY AGREEMENT

THIS GUARANTY AGREEMENT (the "*Guaranty*") is entered into effective as of October , 2018, by and among Bradley Nattrass and Octavio Gutierrez (each, a "Guarantor," and collectively the "*Guarantors*") for the benefit of James Lowe ("*Lender*") with respect to certain indebtedness of urban-gro, Inc. (the "*Company*") in the form of the Promissory Note (defined below). The Guarantors and Lender may also be referred to herein collectively as the "Parties" or individually as a "Party."

RECITALS

A. Lender has agreed to loan funds to the Company pursuant to that certain promissory note, that is executed contemporaneously with this Guaranty, in the original principal amount of One Million dollars (USD$1,000,000) (the "*Promissory Note*").

B. As a condition to Lender's willingness to extend the financial accommodations to the Company evidenced by the Promissory Note, Lender has required that the Guarantors execute this Guaranty in order to guarantee the obligations of the Company under the Promissory Note.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants set forth herein and other good and valuable consideration, the receipt, adequacy and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. **GUARANTY**. The Guarantors hereby jointly and severally guarantee the full and timely payment of the all amounts owed to Lender under the Promissory Note, when and as the same become due, whether at maturity, by acceleration, or otherwise.

2. **SUCCESSORS AND ASSIGNS**. Each reference herein to Lender shall be deemed to include successors and assigns in respect of ownership of the Promissory Note, in whose favor the provisions of the Guaranty shall also run.

3. **RIGHT TO CURE**. Notwithstanding anything in this Guaranty to the contrary, (a) the Guarantors shall be given the same notice of default and opportunity to cure as is afforded the Company under the Promissory Note and/or any other written agreement with Lender, and (b) to the extent all or any part of the indebtedness herein guaranteed is satisfied, whether by payment, offset or otherwise, the obligations of the Guarantors hereunder shall likewise be deemed satisfied to the same extent.

4. **NOTICES**. Any notice required or permitted by the terms of this Guaranty shall be given in the same manner as to the Parties under the Promissory Note addressed to the appropriate party at the address set forth below, or at such other address as that party may have previously designated by notice given to the other.

5. **GOVERNING LAW**. The validity and interpretation of this Guaranty shall be governed by the laws of the State of Colorado. Except as provided below, any and all disputes arising under or related to this Agreement which cannot be resolved through negotiations between the Parties shall be submitted to binding arbitration. If the parties hereto fail to reach a settlement of their dispute within thirty (30) days after the earliest date upon which one of the Parties notifies the other(s) in writing of the existence of and its desire to attempt to resolve the dispute, then the dispute shall be promptly submitted to arbitration by a single arbitrator through the Judicial Arbiter Group of Denver, Colorado ("JAG"), any successor of the Judicial Arbiter Group, or any similar arbitration provider who can provide a former judge to conduct the arbitration if JAG is no longer in existence. The arbitrator shall be selected by JAG, if possible, on the basis of his or her expertise in the subject matter(s) of the dispute. The decision of the arbitrator shall be final, non-appealable and binding upon the Parties, and it may be entered in any court of competent jurisdiction; provided, however, that any party to the arbitration proceeding may seek a court order vacating the decision of the arbitrator in accordance with the provisions of and on the grounds set forth in C.R.S. § 13-22-214 and/or a modification or correction of the arbitrator's award in accordance with the provisions of C.R.S. §§ 13-22-211 or 13-22-215, and may take an appeal from court orders related to the arbitration proceeding or award as provided in C.R.S. § 13-22-221.

The arbitration shall take place in Broomfield, Colorado. The arbitrator shall be bound by the laws of the State of Colorado applicable to the issues involved in the arbitration and all Colorado rules relating to the admissibility of evidence, including, without limitation, all relevant privileges and the attorney work product doctrine. Discovery shall be permitted and shall be completed in accordance with the time limitations prescribed in the Colorado Rules of Civil Procedure, unless extensions of such time limitations are approved by all parties to the arbitration or are ordered by the arbitrator on the basis of strict necessity adequately demonstrated by the party requesting an extension of time. The arbitrator shall have the power to grant equitable relief where available under Colorado law. The arbitrator shall issue a written opinion setting forth his or her decision and the reasons therefore within thirty (30) days after the arbitration proceeding is concluded. The obligation of the parties to submit any dispute arising under or related to this Agreement to arbitration as provided in this section shall survive the expiration or earlier termination of this Agreement. Notwithstanding the foregoing, any party to this Agreement may seek to obtain an injunction or other appropriate relief from a court to preserve the status quo with respect to any matter pending conclusion of the arbitration proceeding, but no such application to a court shall in any way be permitted to stay or otherwise impede the progress of the arbitration proceeding.

In the event of any arbitration or litigation being filed or instituted between the parties concerning this Guaranty, the prevailing party will be entitled to receive from the other party or parties its attorneys' fees, witness fees, costs and expenses, court costs and other reasonable expenses, whether or not such controversy, claim or action is prosecuted to judgment or other of relief. The "prevailing party" is that party which is awarded judgment or other legal or equitable relief as a result of trial or arbitration, or who receives a payment of money from the other party in settlement of claims asserted by such party. If both parties receive a judgment, settlement payment or other award or relief, the court or the arbitrator shall determine which party is the prevailing party, taking into consideration the merits of the claims asserted by each party, the relative values of the judgments, settlements or other forms of relief received by each party, and the relative equities between the parties.

6. **AMENDMENTS**. This Guaranty may not be amended, modified, or changed except by written instrument signed by the party against whom enforcement of such amendment, modification, or waiver is sought.

[Signature Page Follows]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first written above.

GUARANTORS:

/s/ Tavo Gutierrez
Tavo Gutierrez

/s/ Brad Nattrass
Brad Nattrass

LENDER:

/s/ James Lowe
James Lowe

EXHIBIT 10.13

AMENDED PROMISSORY NOTE

$1,000,000 **May 20th, 2019**

On or about October 18th, 2018, the parties hereto did execute that certain Promissory Note in the principal amount of $1,000,000 (the "Note"). The parties hereto now wish to amend the terms and conditions of the aforesaid Note, consistent with the terms and conditions contained hereinbelow. It is the intention of the parties to this Amended Note (the "Amended Note") that this Amended Note shall replace in part the prior Note as indicated hereon. The personal guarantees provided in the original note shall remain in place.

FOR VALUE RECEIVED, urban-gro, Inc., a Colorado corporation ("**Borrower**") promises to pay to James Lowe or his assigns (the **"Lender"**, and together with the Borrower, the "**Parties"**), and his successors and assigns or heirs and personal representatives, as applicable, in lawful money of the United States of America, the principal sum of One Million Dollars ($1,000,000), together with interest on the unpaid principal balance at the rate of Nine percent (9%) per annum. The Effective Date of this Amended Note shall be May 1, 2019.

1. DEFINITIONS AND CONSTRUCTION.

1.1 Definitions. As used in this Amended Note, the definitions included in "Section 1, Definitions" of the original Note shall have the same meanings, except as provided herein.

2. LOAN AND TERMS OF PAYMENT. Borrower acknowledges the receipt on the Closing Date of the original Note of the principal amount of One Million Dollars ($1,000,000). Section 2 of the Note shall be amended to read as follows:

2.1 Payment Schedule. During the term of this Note, interest only payments equal to .75% of the then outstanding principal balance of this Note shall be due and payable in arrears to the Noteholder on each Interest Payment Date. The aggregate unpaid principal amount of the Loan, all accrued and unpaid interest and all other amounts payable under this Note shall be due and payable on the Maturity Date.

2.2 Optional Prepayment. The Borrower may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. No prepaid amount may be re-borrowed.

2.3 Maturity Date. The Note matures on December 31, 2019.

2.4 Additional Consideration. Borrower issued an option to Lender, which shall remain in effect herein. As additional consideration provided for extending the loan, Borrower shall issue Ten Thousand (10,000) shares of its Common Stock to Lender upon execution hereof.

2.5 Right to Cure. In the event Borrower fails to make payment of principal and/or interest after such payment is due and payable under this Note and Borrower shall have the right to cure such default within sixty (60) days from such default.

The balance of the contents of the original Note shall remain as originally stated and are incorporated herein as if set forth.

IN WITNESS WHEREOF, Borrower has caused this Amended Note to be executed as of the date first above written.

urban-gro, Inc.

By: _____
Name: _____
Title: _____

James Lowe

By: _____
Name: _____

SUBORDINATION, POSTPONEMENT AND STANDSTILL AGREEMENT

TO: **BRIDGING FINANCE INC., as agent**

RE: **URBAN-GRO, INC., URBAN-GRO CANADA TECHNOLOGIES INC. and IMPACT ENGINEERING, INC.**

DATE: **February 27, 2020**

Dear Sirs/Mesdames:

This is to confirm our agreement concerning the Obligors (as defined herein):

1. For the purposes hereof, the following terms shall have the following meanings:

   (a) "BFI" means BRIDGING FINANCE INC., as agent, and for greater certainty any replacement of BFI in respect of its role as agent in relation to the BFI Debt;

   (b) "BFI Assets" means all property, assets, rights and undertakings of the Obligors of whatsoever nature and kind, now owned or hereafter acquired by or on behalf of the Obligors and wherever located;

   (c) "BFI Debt" means any and all debts, liabilities and indebtedness, direct or indirect, present and future, of the Obligors to BFI (including without limitation the lenders it represents), whether arising from dealings between BFI and the Obligors or from dealings with any third party by which BFI may be or become in any manner whatsoever a creditor of the Obligors, including, without limitation, any and all indebtedness existing under or in connection with the Loan Agreement;

   (d) "BFI Security" means the security from time to time held by or for the benefit of BFI on the BFI Assets to secure the BFI Debt;

   (e) "Existing SL Debt" means the loans made by the Subordinated Lender to one or more of the Obligors in existence as of the date hereof and described on the attached Schedule "A";

   (f) "Loan Agreement" means the Loan Agreement between the Obligors and BFI dated as of February 21, 2020 (as amended, supplemented, modified, restated or replaced from time to time);

   (g) "Obligors" means URBAN-GRO, INC., URBAN-GRO CANADA TECHNOLOGIES INC. and IMPACT ENGINEERING, INC.;

   (h) "SL Debt" means the Existing SL Debt and any and all indebtedness, direct or indirect, present and future, of the Obligors to the Subordinated Lender;

(i) "SL Loan Documentation" means all documentation evidencing and securing the SL Debt, and all documentation entered into between any of the Obligors and the Subordinated Lender ancillary to the SL Debt, including all SL Security as the same may be amended, supplemented, revised, restated or replaced from time to time;

(j) "SL Security" means the security from time to time held by or for the benefit of the Subordinated Lender to secure the SL Debt; and

(k) "Subordinated Lender" means James Lowe, and his heirs, executors, administrators and assigns.

2. Insofar as may be necessary, the Subordinated Lender hereby consents to the BFI Debt and the granting of the BFI Security and declares that the foregoing will not constitute an event of default under the terms of any SL Loan Documentation. BFI hereby consents to the creation and existence of the Existing SL Debt and declares that the same does not constitute an event of default under the terms of the BFI Security or the Loan Agreement.

3. Unless and until the BFI Debt has been fully and finally repaid, the Subordinated Lender hereby agrees that all payments of or in respect of the SL Debt, on account of principal or interest or otherwise, shall be postponed and subordinated to full and final payment of the BFI Debt, and the Subordinated Lender shall not request or accept any payment or distribution of any kind on or in respect of the SL Debt, including but not limited to principal or interest or other payments in respect of the Existing SL Debt.

4. The Subordinated Lender represents and warrants in favour of BFI that Schedule "A" completely, accurately and without omission describes the Existing SL Debt.

5. The Subordinated Lender hereby agrees that he will not be entitled to demand or accelerate the maturity of the principal of the SL Debt or enforce any rights or remedies at law or in equity under or in respect of the SL Debt, including any rights provided pursuant to the *Personal Property Security Act* ("**PPSA**") in Ontario or similar legislation in any other province of Canada, the Uniform Commercial Code in Colorado or any other state of the United States of America, or similar legislation in any other jurisdiction, or pursuant to the SL Loan Documentation, and shall not commence or participate in any bankruptcy or insolvency proceedings, until such time as the BFI Debt has been fully and finally repaid.

6. Without prejudice to the prohibitions in this Agreement:

(a) if the Subordinated Lender receives any payment in violation of this Agreement, the Subordinated Lender shall receive such payment in trust for BFI and shall remit it to BFI forthwith upon receipt. The Subordinated Lender shall be liable to BFI for the BFI Debt to the extent of an amount equivalent to any such sums received and not remitted to BFI; and

(b) if the Subordinated Lender takes possession or causes possession to be taken of the BFI Assets or otherwise enforces the SL Loan Documentation in violation of this Agreement, the Subordinated Lender shall yield or shall cause any party holding the security for his benefit to yield, on demand, possession thereof and any proceeds resulting from the realization thereupon to BFI or any party acting for BFI.

7. In the event that any of the BFI Security shall become enforceable, BFI or any party acting for BFI or for its benefit will be entitled to take possession of the BFI Assets to the exclusion of the Subordinated Lender and parties acting for him or for his benefit.

8. BFI will be entitled to receive proceeds resulting from the realization upon and collection of the BFI Assets in priority to the Subordinated Lender.

9. The Subordinated Lender hereby postpones and subordinates all SL Security to the BFI Security, and hereby confirms that all BFI Security shall rank in priority to the SL Security regardless of:

   (a) the date of execution, attachment, registration, perfection or re-perfection of any BFI Security or SL Security;

   (b) the date of any advance or advances made to any of the Obligors;

   (c) the date of default by any of the Obligors under any of the BFI Security or the SL Security or the date of crystallization of any floating charge held by the Subordinated Lender or BFI; or

   (d) any priority granted by any principle of law or any statute, including, without limitation, *Bank Act* (Canada), *Bankruptcy and Insolvency Act* (Canada), the PPSA, the Uniform Commercial Code (of any US state) or any like legislation.

10. The priorities herein referred to shall apply notwithstanding any contrary priority or registration or filing and without the necessity of any further documentation on the part of either BFI or the Subordinated Lender. However, it is understood that the Subordinated Lender shall, at the expense of the Obligors, enter into any documentation which BFI may require, acting reasonably, in order to confirm or formalize the priorities herein referred to.

11. In the event that any of the BFI Assets subject to the BFI Security are sold by BFI or for the benefit of BFI, such assets shall be sold free of any rights held by the Subordinated Lender under the SL Security (a "**Permitted Sale**"); provided however that this section shall not be deemed to be a release by the Subordinated Lender of any security, interest, lien on, or right to, the proceeds of such Permitted Sale, but subject to the subordination in favour of BFI contained herein.

12. The Subordinated Lender agrees to promptly give written notice by email to Graham Marr at gmarr@bridgingfinance.ca with a written copy to BFI (attention Graham Marr) at 77 King Street West, Suite 2925, P.O. Box 322, Toronto, Ontario, M5K 1K7, of any default by any of the Obligors under or pursuant to the SL Loan Documentation.

13. This Agreement will continue in force as long as any Obligor is indebted or liable (either directly, indirectly or contingently) to BFI.

14. This Agreement will be governed by and construed in accordance with the laws of the Province of Ontario and federal laws of Canada applicable therein.

15. This Agreement will ensure to the benefit of and be binding upon the respective successors and assigns of the parties hereto.

16. This Agreement may not be amended, modified or otherwise altered except pursuant to a written instrument executed by BFI and the Subordinated Lender.

17. This Agreement may be executed in any number of and by different parties hereto, on separate counterparts, including by way of facsimile. .pdf or other electronic means, all of which when so executed, shall be deemed an original, but all such counterparts shall constitute one and the same agreement.

[remainder of page intentionally left blank; signature page follows]

This Agreement has been executed as of the date first stated above.

	/s/ James Lowe
Witness:	James Lowe

We hereby confirm and agree to the above as of the ela te firs t stated above.

BR1DGING FINANCE INC., as agent

Per: /s/ signature
Name:
Title: Portfolio Manager

Per:
Name:
Title:

Each of the Obligors acknowledges that:

1. it has taken communication of the foregoing Agreement, is in agreement with the terms thereof to the extent that it is affected thereby and undertakes to cooperate with respect thereto;

2. any payments of the SL Debt shall be made in accordance with this Agreement until all of the BFI Debt has been fully and finally repaid;

3. this Agreement is for the benefit of the parties thereto only as between themselves and in no manner diminishes, as between either of the parties and the Obligors, any security or rights now or hereafter existing; and

4. no rights or commitments have been created or implied in favour of the Obligors by this Agreement, and the parties to this Agreement may, as between themselves, in their sole discretion, alter the terms thereof as they see fit, without reference to the Obligors.

We hereby confirm and agree to the above as of the date first state above.

URBAN-GRO, INC.

Per: /s/ Bradley Nattrass
Name: Bradley Nattrass
Title: CEO

URBAN-GRO CANADA TECHNOLOGIES INC.

Per: /s/ Bradley Nattrass
Name: Bradley Nattrass
Title: CEO

IMPACT ENGINEERING, INC.

Per: /s/ Bradley Nattrass
Name: Bradley Nattrass
Title: CEO

SCHEDULE "A"
DESCRIPTION OF EXISTING SL DEBT

1. Loan from the Subordinated Lender to urban-gro, Inc. in the principal amount of US$2,000,000

EXHIBIT 10.15

AMENDING AGREEMENT

THIS AMENDING AGREEMENT (the "**Amending Agreement**") is dated as of February 21, 2020 between urban-gro, Inc. (the "**Borrower**") and James Lowe (the "**Lender**", and together with the Borrower, the "**Parties**").

RECITALS:

(a) The Lender agreed to loan USD$1,000,000 (the "**Principal Amount**") to the Borrower upon the terms and conditions contained in a promissory note between the Lender and the Borrower dated as of October 18, 2018, as amended with effect as of May 20, 2019 (the "**Promissory Note**");

(b) The principal amount outstanding under the Promissory Note as of the date of this Amending Agreement is USD$1,000,000; and

(c) The Borrower and the Lender desire to make certain amendments to the Promissory Note, without novation of the Promissory Note.

In consideration of the foregoing and the mutual agreements contained herein (the receipt and adequacy of which are acknowledged), the Parties agree as follows:

Section 1 Defined Terms.

Capitalized terms used in this Amending Agreement and not otherwise defined have the meanings specified in the Promissory Note.

Section 2 Extension of Maturity Date

With effect as of December 31, 2019, the Parties hereby agree to amend the Promissory Note by extending the Maturity Date from December 31, 2019 to the date which is the earlier of 60 days following the date: (i) on which demand for repayment is made by Bridging Finance Inc. (the "**Senior Lender**") under the loan agreement dated as of February 21, 2020 between the Borrower, urban-gro Canada Technologies Inc., Impact Engineering, Inc. and the Senior Lender (collectively, the "**Senior Debt**"); or (ii) which is the stated maturity date (including any extensions thereof) in respect of the Senior Debt.

Section 3 Issuance of Common Stock to Lender

Within ten (10) business days of the date hereof, the Borrower shall issue a total of 100,000 common shares of the Borrower to (or to the order of) the Lender.

Section 4 Reference to and Effect on the Promissory Note and Guaranty Agreement.

Upon this Amending Agreement becoming effective, each reference in the Promissory Note to "this Note" and any and all other agreements, documents and instruments delivered by the Borrower, the Lender or any other person shall mean and be a reference to the Promissory Note as amended by this Amending Agreement. Except as specifically amended by this Amending Agreement, the Promissory Note shall remain in full force and effect, without any novation of the Promissory Note.

Section 5 Governing Law.

This Amending Agreement shall be governed by the laws of the laws of the State of Colorado.

Section 6 Counterparts.

This Amending Agreement may be executed in any number of counterparts, each of which is deemed to be an original, and such counterparts together constitute one and the same instrument. Transmission of an executed signature page by facsimile, e-mail or other electronic means is as effective as a manually executed counterpart of this Amending Agreement.

[Signature page follows.]

***IN WITNESS WHEREOF**, the Lender has executed this Amendment Agreement as of the day and year set forth above.*

By: /s/ James Lowe
James Lowe

Accepted and agreed:

urban-gro, INC.

By: /s/ Brad Nattrass
Authorized Signing Officer

EXHIBIT 21.1

LIST OF SUBSIDIARIES

urban-gro Canada Technologies, Inc, a Canadian corporation

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-233472) of our report dated May 18, 2020, relating to the consolidated financial statements of urban-gro, Inc. and its subsidiaries as of December 31, 2019 and for each of the two years in the period ended December 31, 2019 and to all references to our firm included in this Annual Report filed with the U.S. Securities and Exchange Commission on May 18, 2020.

/S/ B F Borgers CPA PC
Lakewood, Colorado
May 18, 2020

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: May 18, 2020

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: May 18, 2020

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, 2019, as filed with the Securities and Exchange Commission on May 18, 2020 (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: May 18, 2020

s/ Bradley Nattrass
Bradley Nattrass, Chief Executive Officer

Dated: May 18, 2020

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