# UNITED STATES SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**
# FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **March 31, 2023**
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________.

Commission File Number: **001-39933**

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

| | |
|---|---|
| **Delaware** | **46-5158469** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | | |
|---|---|---|
| **1751 Panorama Point, Unit G**<br>**Lafayette, CO** | **80026** | **(720) 390-3880** |
| (Address of principal executive offices) | (Zip Code) | (Registrant's telephone number, including area code) |

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The number of shares of the registrant's only class of common stock outstanding as of April 24, 2023 was 10,938,556 shares.

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## CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute 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"), including statements related to future events, challenges we may face, business strategy, future performance, future operations, backlog, financial position, estimated or projected revenues and losses, projected costs, prospects, plans and objectives of management. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek," "anticipate," "plan," "continue," "estimate," "expect," "may," "will," "project," "predict," "potential," "intend," "could," "should," "believe," and variations of such words or their negative and similar expressions. Forward-looking statements should not be read as a guarantee of future performance or results, and may not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on management's belief, based on currently available information, as to the outcome and timing of future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed in such forward-looking statements. When evaluating forward-looking statements, you should consider the risk factors and other cautionary statements described in this Quarterly Report on Form 10-Q and under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. We believe the expectations reflected in the forward-looking statements contained in this report are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking statements should not be unduly relied upon. Important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements include, but are not limited to:

- risks related to our operating strategy;
- competition for projects in our markets;
- our ability to predict and respond to new laws and governmental regulatory actions affecting our business, including foreign laws and governmental regulation;
- risks related to delays in the grant of necessary licenses to clients and delays in passage of legislation expected to benefit our clients, which could delay the funding and start of projects
- our ability to successfully develop new and/or enhancements to our product offerings and develop a product mix to meet demand;
- our ability to meet or exceed market expectations from analysts;
- unfavorable economic conditions, increases in interest rates and restrictive financing markets that may cause customers to cancel contracts reflected in our backlog or cause sales to decrease;
- our ability to successfully identify, manage and integrate acquisitions;
- our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;
- climate change and related laws and regulations;
- our ability to manage our supply chain in a manner that ensures that we are able to obtain adequate raw materials, equipment and essential supplies in a timely manner and at favorable prices;
- our ability to attract and retain key personnel;
- risks associated with concentration of a large portion of our business from a relatively small number of key clients/customers and the effect a loss of a key client/customer could have on our business;
- risks associated with customers or suppliers not fulfilling contracts;
- risks associated with reliance on key suppliers and risks such suppliers could change incentive programs that negatively affect our returns;
- the impact of inflation on costs of labor, raw materials and other items that are critical to our business;
- property damage and other claims and insurance coverage issues;

- the outcome of litigation or disputes;
- risks related to our information technology systems and infrastructure, including cybersecurity incidents;
- risks to our reputation from negative publicity, social media posts or negative interpretations of our ESG efforts;
- our ability to maintain effective internal control over financial reporting; and
- other events outside of our control.

These factors are not necessarily all of the important factors that could cause actual results or events to differ materially from those expressed in the forward-looking statements. Other unknown or unpredictable factors could also cause actual results or events to differ materially from those expressed in the forward-looking statements. Our future results will depend upon various other risks and uncertainties, including those described in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. All forward-looking statements attributable to us are qualified in their entirety by this cautionary statement. Forward-looking statements speak only as of the date hereof. We undertake no obligation to update or revise any forward-looking statements after the date on which any such statement is made, whether as a result of new information, future events or otherwise, except as required by law. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.

**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS (unaudited)**

**URBAN-GRO, INC.**
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 7,327,485 | $ 12,008,003 |
| Accounts receivable, net | 22,069,269 | 15,380,292 |
| Contract receivables | 2,817,407 | 3,004,282 |
| Prepaid expenses and other assets | 4,685,529 | 4,164,960 |
| Total current assets | 36,899,690 | 34,557,537 |
| Non-current assets: | | |
| Property and equipment, net | 1,366,761 | 1,307,146 |
| Operating lease right of use assets, net | 2,542,644 | 2,618,825 |
| Investments | 2,572,103 | 2,559,307 |
| Goodwill | 15,572,050 | 15,572,050 |
| Intangible assets, net | 5,140,667 | 5,450,687 |
| Total non-current assets | 27,194,225 | 27,508,015 |
| **Total assets** | **$ 64,093,915** | **$ 62,065,552** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 14,865,846 | $ 9,960,364 |
| Accrued expenses | 5,215,255 | 3,196,961 |
| Contract liabilities | 2,413,423 | 1,294,452 |
| Customer deposits | 2,355,609 | 2,571,161 |
| Contingent consideration | 2,537,291 | 2,799,287 |
| Promissory note | 2,908,213 | 3,832,682 |
| Operating lease liabilities | 606,648 | 600,816 |
| Total current liabilities | 30,902,285 | 24,255,723 |
| Non-current liabilities: | | |
| Operating lease liabilities | 1,964,804 | 2,044,782 |
| Deferred tax liability | 968,151 | 1,033,283 |
| Total non-current liabilities | 2,932,955 | 3,078,065 |
| Commitments and contingencies (note 10) | | |
| Stockholders' equity | | |
| Preferred stock, $0.10 par value; 10,000,000 shares authorized; 0 shares issued and outstanding | — | — |
| Common stock, $0.001 par value; 100,000,000 shares authorized; 12,388,389 issued and 10,938,556 outstanding as of March 31, 2023, and 12,220,593 issued and 10,770,760 outstanding as of December 31, 2022 | 12,388 | 12,221 |
| Additional paid-in capital | 85,554,375 | 84,882,982 |
| Treasury shares, cost basis: 1,449,833 shares as of March 31, 2023 and as of December 31, 2022 | (12,045,542) | (12,045,542) |
| Accumulated deficit | (43,262,546) | (38,117,897) |
| Total stockholders' equity | 30,258,675 | 34,731,764 |
| **Total liabilities and stockholders' equity** | **$ 64,093,915** | **$ 62,065,552** |

The accompanying unaudited notes are an integral part of these condensed consolidated financial statements

**URBAN-GRO, INC..**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (unaudited)**

| | Three Months Ended March 31, 2023 | Three Months Ended March 31, 2022 |
|---|---|---|
| **Revenues:** | | |
| Equipment systems | $ 2,911,823 | $ 17,067,344 |
| Services | 3,470,653 | 3,638,507 |
| Construction design-build | 10,205,952 | — |
| Other | 176,957 | 347,018 |
| Total revenues and other income | 16,765,385 | 21,052,869 |
| **Cost of revenues:** | | |
| Equipment systems | 2,477,505 | 13,974,779 |
| Services | 1,997,423 | 1,929,248 |
| Construction design-build | 9,315,993 | — |
| Other | 132,616 | 246,822 |
| Total cost of revenues | 13,923,537 | 16,150,849 |
| **Gross profit** | 2,841,848 | 4,902,020 |
| | | |
| **Operating expenses:** | | |
| General and administrative | 7,098,858 | 4,725,301 |
| Stock-based compensation | 479,641 | 882,000 |
| Intangible asset amortization | 310,020 | 162,500 |
| Total operating expenses | 7,888,519 | 5,769,801 |
| **Loss from operations** | **(5,046,671)** | **(867,781)** |
| | | |
| **Non-operating income (expense):** | | |
| Interest expense | (73,216) | (7,658) |
| Interest income | 73,131 | 79,852 |
| Contingent consideration | (160,232) | — |
| Other expense | (2,793) | (8,690) |
| Total non-operating income (expense) | (163,110) | 63,504 |
| **Loss before income taxes** | **(5,209,781)** | **(804,277)** |
| | | |
| Income tax benefit | 65,132 | 108,060 |
| **Net loss** | **$ (5,144,649)** | **$ (696,217)** |
| | | |
| **Comprehensive loss** | **$ (5,144,649)** | **$ (696,217)** |
| | | |
| Loss per share - basic and diluted | $ (0.48) | $ (0.07) |
| Weighted average shares - basic and diluted | 10,772,705 | 10,508,972 |

The accompanying unaudited notes are an integral part of these condensed consolidated financial statements

**URBAN-GRO, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (unaudited)**

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance, December 31, 2022** | **12,220,593** | **$ 12,221** | **$ 84,882,982** | **$ (38,117,897)** | **$ (12,045,542)** | **$ 34,731,764** |
| Stock-based compensation | — | — | 479,641 | — | — | 479,641 |
| Stock grant program vesting | 103,572 | 103 | (103) | — | — | — |
| Stock issued for contingent consideration | 64,224 | 64 | 191,855 | — | — | 191,919 |
| Net loss for period ended March 31, 2023 | — | — | — | (5,144,649) | — | (5,144,649) |
| **Balance, March 31, 2023** | **12,388,389** | **$ 12,388** | **$ 85,554,375** | **$ (43,262,546)** | **$ (12,045,542)** | **$ 30,258,675** |

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **Balance, December 31, 2021** | **11,588,110** | **$ 11,588** | **$ 78,679,220** | **$ (22,839,988)** | **$ (7,683,490)** | **$ 48,167,330** |
| Stock-based compensation | — | — | 882,000 | — | — | 882,000 |
| Treasury stock purchases | — | — | — | — | (3,773,177) | (3,773,177) |
| Stock options exercised | 4,555 | 5 | 28,792 | — | — | 28,797 |
| Stock issued in conversion of warrants | 34,863 | 35 | (35) | — | — | — |
| Net loss for period ended March 31, 2022 | — | — | — | (696,217) | — | (696,217) |
| **Balance, March 31, 2022** | **11,627,528** | **$ 11,628** | **$ 79,589,977** | **$ (23,536,205)** | **$ (11,456,667)** | **$ 44,608,733** |

The accompanying unaudited notes are an integral part of these condensed consolidated financial statements

**URBAN-GRO, INC.**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

| | Three Months Ended March 31, | |
|---|---|---|
| | **2023** | **2022** |
| **Cash flows from operating activities:** | | |
| Net loss | $ (5,144,649) | $ (696,217) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 404,069 | 218,278 |
| Deferred income tax benefit | (65,132) | (108,060) |
| Stock-based compensation expense | 479,641 | 882,000 |
| Change in fair value of contingent consideration | 160,232 | — |
| Other, net | 327,189 | (56,921) |
| Changes in operating assets and liabilities (net of acquired amounts): | | |
| Accounts receivable | (6,827,927) | (354,181) |
| Prepaid expenses and other assets | (334,525) | 1,439,679 |
| Accounts payable and accrued expenses | 7,118,280 | 1,092,601 |
| Operating lease liability | (174,592) | (33,913) |
| Customer deposits | (215,552) | (6,110,537) |
| **Net cash used in operating activities** | **(4,272,966)** | **(3,727,271)** |
| | | |
| **Cash flows from investing activities:** | | |
| Purchases of property and equipment | (133,833) | (32,336) |
| **Net cash used in investing activities** | **(133,833)** | **(32,336)** |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from issuance of common stock, net of offering costs | — | 28,797 |
| Repurchase of common stock | — | (3,773,177) |
| Repayment of finance lease ROU liability | (43,410) | (36,000) |
| Payments to settle contingent consideration | (230,309) | — |
| **Net cash used in financing activities** | **(273,719)** | **(3,780,380)** |
| | | |
| Net change in cash | (4,680,518) | (7,539,987) |
| Cash at beginning of period | 12,008,003 | 34,592,190 |
| **Cash at end of period** | **$ 7,327,485** | **$ 27,052,203** |
| | | |
| **Supplemental cash flow information:** | | |
| Cash paid for interest | $ 6,475 | $ 7,658 |
| Net cash paid for income taxes | $ 23,487 | $ 55,120 |
| | | |
| **Supplemental disclosure of non-cash investing and financing activities:** | | |
| Operating lease right of use assets and liabilities extension | $ 101,264 | $ — |

The accompanying unaudited notes are an integral part of these condensed consolidated financial statements

**URBAN-GRO, INC.**
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 1 – ORGANIZATION, ACQUISITIONS, AND LIQUIDITY

Organization

urban-gro, Inc. ("we," "us," "our," the "Company," or "urban-gro") is an integrated professional services and design-build firm. We offer value-added architectural, engineering, and construction management solutions to the Controlled Environment Agriculture ("CEA"), industrial, healthcare, and other commercial sectors. Innovation, collaboration, and a commitment to sustainability drive our team to provide exceptional customer experiences. To serve our horticulture clients, we engineer, design and manage the construction of indoor CEA facilities and then integrate complex environmental equipment systems into those facilities. Through this work, we create high-performance indoor cultivation facilities for our clients to grow specialty crops, including leafy greens, vegetables, herbs, and plant-based medicines. Our custom-tailored approach to design, construction, procurement, and equipment integration provides a single point of accountability across all aspects of indoor growing operations. We also help our clients achieve operational efficiency and economic advantages through a full spectrum of professional services and programs focused on facility optimization and environmental health which establish facilities that allow clients to manage, operate and perform at the highest level throughout their entire cultivation lifecycle once they are up and running. Further, we serve a broad range of commercial and governmental entities, providing them with planning, consulting, architectural, engineering and construction design-build services for their facilities. We aim to work with our clients from the inception of their project in a way that provides value throughout the life of their facility. We are a trusted partner and advisor to our clients and offer a complete set of engineering and managed services complemented by a vetted suite of select cultivation equipment systems.

Acquisitions

*DVO*

Effective October 31, 2022, the Company entered into an agreement with Dawson Van Orden, Inc. ("Seller" or "DVO") and DVO's shareholders (the "DVO Shareholders") to acquire substantially all of the operating assets and liabilities of DVO, a Texas based engineering firm with significant experience in indoor CEA. The purchase price of $6.1 million, after working capital adjustments, was comprised of (i) $1.2 million in cash, (ii) a $3.8 million Seller's promissory note, and (iii) $1.1 million of the Company's common stock. The Seller's promissory note is to be paid out over four quarters beginning in January 2023. The Seller's promissory note balances as of March 31, 2023, and December 31, 2022, were $2,908,213 and $3,832,682, respectively. The purchase price excludes up to $1.1 million of contingent consideration earnout that may become payable to the Seller dependent on the continued employment of the DVO Shareholders. The contingent consideration earnout is payable in cash or shares of the Company's common stock at the discretion of the Company.

The Company accounted for the acquisition as follows:

| | | |
|---|---|---|
| Purchase price | $ | 6,072,366 |
| | | |
| Allocation of purchase price: | | |
| Accounts receivable, net | $ | 1,134,909 |
| Right of use asset | $ | 1,197,310 |
| Property and equipment | $ | 229,058 |
| Goodwill | $ | 3,444,926 |
| Intangible assets | $ | 1,276,000 |
| Accrued expenses | $ | (12,527) |
| Right of use liability | $ | (1,197,310) |

Pro-forma disclosure of the DVO acquisition is not required as the historical results of DVO were not material to the Company's consolidated financial statements. Acquired goodwill from DVO represents the value expected to arise from organic growth and an opportunity to expand into a well-established market for the Company.

*Emerald*

Effective April 29, 2022, the Company acquired all of the issued and outstanding capital stock of Emerald Construction Management, Inc. (“Emerald”) from its shareholders (the “Emerald Sellers”). The purchase price of $7.7 million, after working capital adjustments, was comprised of (i) $3.4 million in cash, (ii) $2.5 million of the Company’s common stock, and (iii) $1.8 million of estimated contingent consideration earnout payable to the Emerald Sellers over the term of the earnout. The total contingent earnout payable to the Emerald Sellers is $2.0 million. Effective January 1, 2023, the terms of the contingent consideration earnout provision were amended providing for the entire contingent consideration of up to $2.0 million to be earned based solely on the continued employment of the Emerald Sellers for atwo year period. This resulted in the Company recording additional contingent consideration expense of $160,232 in the first quarter of 2023. The remaining contingent consideration earnout is payable quarterly in shares of the Company’s common stock with the value of such shares being determined based upon the volume-weighted average price ("VWAP") of the Company’s common stock in the ten trading days prior to the end of the applicable quarter for which the quarterly gross profit is calculated.

The Company accounted for the acquisition as follows:

| | | |
|---|---|---|
| Purchase Price | $ | 7,671,557 |
| | | |
| Allocation of Purchase Price: | | |
| Cash | $ | 622,641 |
| Accounts receivable, net | $ | 2,666,811 |
| Contract receivables | $ | 494,456 |
| Prepayments and other assets | $ | 38,086 |
| Property and equipment | $ | 403,008 |
| Right of use asset | $ | 82,408 |
| Goodwill | $ | 4,135,006 |
| Intangible assets | $ | 3,659,000 |
| Accrued expenses | $ | (2,361,302) |
| Contract liabilities | $ | (1,071,399) |
| Right of use liability | $ | (82,408) |
| Deferred tax liability | $ | (914,750) |

The following pro-forma amounts reflect the Company’s results as if the acquisition of Emerald had occurred on January 1, 2022. These pro-forma amounts have been calculated after applying the Company’s accounting policies and adjusting the results of the acquisition to reflect the additional amortization of intangibles.

| | **Three Months Ended March 31, 2023** | **Three Months Ended March 31, 2022** |
|---|---|---|
| **Revenues:** | | |
| Equipment systems | $ 2,911,823 | $ 17,067,344 |
| Services | 3,470,653 | 3,638,507 |
| Construction design-build | 10,205,952 | 9,244,863 |
| Other | 176,957 | 347,018 |
| Total revenues and other income | 16,765,385 | 30,297,732 |
| | | |
| **Net loss** | **$ (5,144,649)** | **$ (3,511)** |

Acquired goodwill from Emerald represents the value expected to arise from organic growth and an opportunity for the Company to expand into a well-established market.

Liquidity and Going Concern

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

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Unaudited Condensed Consolidated Financial Statements

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the SEC for condensed financial reporting. The condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of the Company's condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive loss, condensed consolidated statements of stockholders' equity and condensed consolidated statements of cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted in accordance with regulations of the SEC. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Significant Accounting Policies

For a detailed discussion about the Company's significant accounting policies, refer to Note 2 — "Summary of Significant Accounting Policies," in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. During the three months ended March 31, 2023, there were no material changes made to the Company's significant accounting policies.

Use of Estimates

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

Reclassification

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

Balance Sheet Classifications

The Company includes in current assets and liabilities the following amounts that are in connection with construction contracts that may extend beyond one year: contract assets and contract liabilities (including retainage invoiced to customers contingent upon anything other than the passage of time), capitalized costs to fulfill contracts, retainage payable to sub-contractors and accrued losses on uncompleted contracts. A one-year time period is used to classify all other current assets and liabilities when not otherwise prescribed by the applicable accounting principles.

Contract Assets and Liabilities

The timing between when Company collects cash from its construction design-build customers can create a contract asset or contract liability.Please refer to Note 3 - Revenue from Contracts with Customers for further discussion of the Company's contract assets and liabilities.

Recently Issued Accounting Standards

As of March 31, 2023, and through the filing of this report, no Accounting Standards Updates have been issued and not yet adopted that are applicable to the Company and that would have a material effect on the Company's unaudited condensed consolidated financial statements and related disclosures.

**NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

The Company recognizes revenue predominantly from the sale of equipment systems, services, construction design-build, and from other various immaterial contracts with customers from its CEA and Commercial sectors. The table below presents the revenue by source for the three months ended March 31, 2023 and 2022:

| | For the three months ended March 31, 2023 | | | |
|---|---|---|---|---|
| | CEA | Commercial | Total | Relative Percentage |
| Equipment systems | $ 2,911,823 | $ — | $ 2,911,823 | 17% |
| Services | 1,577,026 | 1,893,627 | 3,470,653 | 21% |
| Construction design-build | 383,524 | 9,822,428 | 10,205,952 | 61% |
| Other | 176,957 | — | 176,957 | 1% |
| Total revenues and other income | $ 5,049,330 | $ 11,716,055 | $ 16,765,385 | 100% |
| Relative percentage | 30 % | 70 % | 100 % | |

| | For the three months ended March 31, 2022 | | | |
|---|---|---|---|---|
| | CEA | Commercial | Total | Relative Percentage |
| Equipment systems | $ 17,067,344 | $ — | $ 17,067,344 | 81% |
| Services | 2,170,351 | 1,468,156 | 3,638,507 | 17% |
| Construction design-build | — | — | — | —% |
| Other | 347,018 | — | 347,018 | 2% |
| Total revenues and other income | $ 19,584,713 | $ 1,468,156 | $ 21,052,869 | 100% |
| Relative percentage | 93 % | 7 % | 100 % | |

Under ASC 606, a performance obligation is a promise in a contract with a customer, to transfer a distinct good or service to the customer. Equipment systems contracts are lump sum contracts, which require the performance of some, or all, of the obligations under the contract for a specified amount. Service revenue contracts, which include both architectural and engineering designs, generally contain multiple performance obligations which can span across multiple phases of a project and are generally set forth in the contract as distinct milestones. The majority of construction design-build contracts have a single performance obligation, as the promise to transfer the individual goods or services is not separately identifiable from other promises in the contracts and, therefore, not distinct. Some contracts have multiple performance obligations, most commonly due to the contract covering multiple phases of the project life cycle (design and construction).

The transaction price for service contracts and construction design-build contracts is allocated to each distinct performance obligation and recognized as revenue when, or as, each performance obligation is satisfied. When there are multiple performance obligations under the same service contract, the Company allocates the transaction price to each performance obligation based on the standalone selling price. In general, payment is fixed at the time of the contract and are not subject to discounts, incentives, payment bonuses, credits, and penalties, unless negotiated in an amendment.

When establishing the selling price to the customer, the Company uses various observable inputs. For equipment systems, the stand-alone selling price is determined by forecasting the expected costs of the products, and then adding in the appropriate margins established by management. For service revenues and construction design-build revenues, the Company estimates the selling price by reference to certain physical characteristics of the project, which include the facility size, the complexity of the design, and the mechanical systems involved, which are indicative of the scope and complexity for those services. Significant judgments are typically not required with respect to the determination of the transaction price based on the nature of the selling prices of the products and services delivered and the collectability of those amounts. Accordingly, the Company does not consider estimates of variable consideration to be constrained.

The Company recognizes equipment systems, services, and construction design-build revenues when the performance obligation with the customer is satisfied. For satisfaction of equipment system revenues, the Company recognizes revenue when control of the promised good transfers to the customer, which predominately occurs at the time of shipment. For service revenues, satisfaction occurs as the services related to the distinct performance obligations are rendered or completed in exchange for consideration in an amount for which the Company is entitled. The time period between recognition and satisfaction of performance obligations is generally within the same reporting period; thus, there are no material unsatisfied or partially unsatisfied performance obligations for product or service revenues at the end of the reporting period.

Construction design-build revenues are recognized as the Company's obligations are satisfied over time, using the ratio of project costs incurred to estimated total costs for each contract because of the continuous transfer of control to the customer as all of the work is performed at the customer's site and, therefore, the customer controls the asset as it is being constructed. This continuous transfer of control to the customer is further supported by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay the Company for costs incurred plus a reasonable profit and take control of any work in process. This cost-to-cost measure is used for our construction design-build contracts because management considers it to be the best available measure of progress on these contracts.

Contract modifications through change orders, claims and incentives are routine in the performance of the Company's construction design-build contracts to account for changes in the contract specifications or requirements. In most instances, contract modifications are not distinct from the existing contract due to the significant integration of services provided in the contract and are accounted for as a modification of the existing contract and performance obligation. Either the Company or its customers may initiate change orders, which may include changes in specifications or designs, manner of performance, facilities, equipment, materials, sites and period of completion of the work. Change orders that are unapproved as to both price and scope are evaluated as claims. The Company considers claims to be amounts in excess of approved contract prices that the Company seeks to collect from its customers or others for customer-caused delays, errors in specifications and designs, contract terminations, change orders that are either in dispute or are unapproved as to both scope and price, or other causes of unanticipated additional contract costs.

The timing of when the Company bills customers on long-term construction design-build contracts is generally dependent upon agreed-upon contractual terms, which may include milestone billings based on the completion of certain phases of the work, or when services are provided. When as a result of contingencies, billings cannot occur until after the related revenue has been recognized; the result is unbilled revenue, which is included in contract assets. Additionally, the Company may receive advances or deposits from customers before revenue is recognized; the result is deferred revenue, which is included in contract liabilities. Retainage subject to conditions other than the passage of time are included in contract assets and contract liabilities.

Contract assets represent revenues recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts. Contract liabilities represent the Company's obligation to perform on uncompleted contracts with customers for which the Company has received payment or for which contract receivables are outstanding.

The following table provides information about contract assets and contract liabilities from contracts with customers:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| **Contract assets:** | | |
| Revenue recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts (contract asset), excluding retainage | $ 2,795,428 | $ 2,874,141 |
| Retainage included in contract assets due to being conditional on something other than solely passage of time | 21,979 | 130,141 |
| **Total contract assets** | **$ 2,817,407** | **$ 3,004,282** |

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| **Contract liabilities:** | | |
| Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability) | $ 2,197,355 | $ 1,294,452 |
| Retainage included in contract liabilities due to being conditional on something other than solely passage of time | 216,068 | — |
| **Total contract liabilities** | **$ 2,413,423** | **$ 1,294,452** |

Trade accounts receivable, net of allowance for doubtful accounts, balances from contracts with customers within the accompanying condensed consolidated balance sheets as of March 31, 2023, and December 31, 2022, were $21,069,269 and $12,466,180, respectively.

Non-trade accounts receivable as of March 31, 2023, and December 31, 2022, were $1,000,000 and $2,914,112, respectively. Non-trade accounts receivables as of December 31, 2022,was comprised of miscellaneous non-trade accounts receivables totaling $514,112 and non-trade accounts receivable related to litigation involving fraudulent wire transactions of $2,400,000. On March 27, 2023, the Company entered into an agreement to settle this litigation and received a cash payment of $2,400,000 on March 27, 2023.

For equipment systems contracts, the Company's predominant policy is to collect deposits from customers at the beginning of the contract and the balance of the contract payment prior to shipping. The Company does, in some cases, collect deposits or retainers as down payments on service contracts. Consumable products orders may be paid for in advance of shipment or for recurring customers with credit, payment terms of 30 days or less may be extended by the Company. Customer payments that have been collected prior to the performance obligation being recognized are recorded as customer deposit liabilities on the balance sheet. When the performance obligation is satisfied and all the criteria for revenue recognition are met, revenue is recognized. 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 is entitled to keep the deposit and recognize revenue.

**NOTE 4 – RELATED PARTY TRANSACTIONS**

James Lowe, a director of the Company, is an owner of Cloud 9 Support, LLC ("Cloud 9") and Potco LLC ("Potco"). Cloud 9 purchases materials from the Company for use with its customers and Potco purchases equipment from the Company for use in its cultivation facility. Total sales to Cloud 9 from the Company were $0 and $5,807 during the three months ended March 31, 2023, and 2022, respectively. Total sales to Potco from the Company were $479,897 and $11,400 during the three months ended March 31, 2023, and 2022, respectively. Outstanding receivables from Cloud 9 as of March 31, 2023 and December 31, 2022 totaled $0 and $3,920 respectively. Outstanding receivables from Potco as of March 31, 2023 and December 31, 2022 totaled $541,850 and $20,174 respectively.

**NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS**

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

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Vendor prepayments | $ 3,211,513 | $ 2,459,389 |
| Prepaid services and fees | 1,105,792 | 1,346,430 |
| Inventories | 329,455 | 320,372 |
| Other assets | 38,769 | 38,769 |
| **Total Prepaid expenses and other assets** | **$ 4,685,529** | **$ 4,164,960** |

**NOTE 6 – PROPERTY AND EQUIPMENT, NET**

Property and equipment balances are summarized as follows:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Computers and technology equipment | $ 256,515 | $ 232,405 |
| Furniture and fixtures | 243,900 | 234,389 |
| Leasehold improvements | 306,719 | 306,719 |
| Vehicles | 452,822 | 456,797 |
| Software | 793,944 | 685,580 |
| Other equipment | 58,525 | 58,525 |
| Accumulated depreciation | (745,664) | (667,269) |
| **Total Property and equipment, net** | **$ 1,366,761** | **$ 1,307,146** |

Depreciation expense for the three months ended March 31, 2023, and 2022 totaled $94,049 and $55,778, respectively.

## NOTE 7 – INVESTMENTS

The components of investments as of March 31, 2023 and December 31, 2022 are summarized as follows:

| | Edyza | XS Financial | Total |
|---|---|---|---|
| Balances as of December 31, 2022 | $ — | $ 2,559,307 | $ 2,559,307 |
| Paid-in-kind interest | — | 12,796 | 12,796 |
| **Balances as of March 31, 2023** | **$ —** | **$ 2,572,103** | **$ 2,572,103** |

Edyza

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

During the third quarter of 2022, the Company fully impaired this investment, resulting in an impairment recorded of $1.7 million. The Company determined that the intent and ability to retain its investment for a period of time sufficient to allow for any anticipated recovery had passed, causing an "other than temporary loss." The Company will continue to monitor any future changes to this impairment and seek to recover any remaining value of its 19.5% ownership.

XS Financial

On October 30, 2021, the Company participated in a convertible note offering of Xtraction Services, Inc., a/k/a XS Financial Inc. (CSE: XSF) (OTCQB: XSHLF) ("XSF"), a specialty finance company providing CAPEX financing solutions, including equipment leasing, to CEA companies in the United States. The Company invested $2,500,000 of a total $43,500,000 raised by XSF. Prior to any Nasdaq listing, the investment incurs 9.5% interest payable, of which, 7.5% is cash interest and 2.0% is interest paid in kind. Subsequent to any Nasdaq listing by XSF, the investment incurs 8.0% cash interest. The debt matures on October 28, 2023, with a one-year option at the sole discretion of XSF to extend the maturity date. In addition, the Company received 1,250,000 warrants denominated in Canadian dollars ("C$") with a C$0.45 exercise price as subject to the warrant instrument. No value was attributed to the warrants at the time of the investment.

## NOTE 8 – GOODWILL & INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill in conjunction with the acquisitions it has completed. The goodwill balances as of March 31, 2023 and December 31, 2022 were $15,572,050 and $15,572,050, respectively. Goodwill is not amortized. There is no goodwill for income tax purposes. The Company did not record any impairment charges related to goodwill for the three months ended March 31, 2023 and 2022.

Intangible Assets Other Than Goodwill

Intangible assets as of March 31, 2023 and December 31, 2022 consisted of the following:

| | As of March 31, 2023 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Finite-lived intangible assets: | | | |
| Customer relationships | $ 4,212,100 | $ (553,450) | $ 3,658,650 |
| Trademarks and trade names | 1,778,000 | (396,717) | 1,381,283 |
| Backlog and other | 768,113 | (695,670) | 72,443 |
| Total finite-lived intangible assets: | 6,758,213 | (1,645,837) | 5,112,376 |
| Indefinite-lived intangible assets: | | | |
| Trade name | 28,291 | — | 28,291 |
| Total indefinite-lived intangible assets | 28,291 | — | 28,291 |
| **Total intangible assets, net** | **$ 6,786,504** | **$ (1,645,837)** | **$ 5,140,667** |

| | As of December 31, 2022 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| Finite-lived intangible assets: | | | |
| Customer relationships | $ 4,212,100 | $ (401,997) | $ 3,810,103 |
| Trademarks and trade names | 1,778,000 | (307,817) | 1,470,183 |
| Backlog and other | 768,113 | (626,003) | 142,110 |
| Total finite-lived intangible assets: | 6,758,213 | (1,335,817) | 5,422,396 |
| Indefinite-lived intangible assets: | | | |
| Trade name | 28,291 | — | 28,291 |
| Total indefinite-lived intangible assets | 28,291 | — | 28,291 |
| **Total intangible assets, net** | **$ 6,786,504** | **$ (1,335,817)** | **$ 5,450,687** |

Amortization expense for intangible assets for the three months ended March 31, 2023 and 2022 was $310,020 and $162,500, respectively. The estimated future amortization expense for intangible assets subject to amortization as of March 31, 2023, is summarized below:

| For the years ending December 31, | Estimated Future Amortization Expense |
|---|---|
| Remainder of 2023 | $ 756,005 |
| 2024 | 959,788 |
| 2025 | 959,788 |
| 2026 | 918,205 |
| 2027 | 693,555 |
| Thereafter | 825,035 |
| **Total estimated future amortization expense** | **$ 5,112,376** |

**NOTE 9 – ACCRUED EXPENSES**

Accrued expenses are summarized as follows:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Accrued operating expenses | $ 1,520,517 | $ 515,858 |
| Accrued wages and related expenses | 1,697,058 | 639,614 |
| Accrued 401(k) | 95,732 | 262,599 |
| Accrued sales tax payable | 1,901,948 | 1,778,890 |
| **Total accrued expenses** | **$ 5,215,255** | **$ 3,196,961** |

Accrued sales tax payable is comprised of amounts due to various states and Canadian provinces from the year ended 2015 through the three months ended March 31, 2023.

**NOTE 10 – OPERATING LEASE LIABILITIES AND COMMITMENTS AND CONTINGENCIES**

The Company has seven operating office lease liabilities and one finance office lease liability with an imputed annual interest rate of 8.0%. Five of the leases were assigned to the Company in connection with the acquisitions of 2WR, Emerald, and DVO. The remaining lease terms range from less than a year to 6 years, as of March 31, 2023. The following is a summary of operating lease liabilities:

| | March 31, 2023 | December 31, 2022 |
|---|---|---|
| Operating lease liabilities related to right of use assets | $ 2,571,452 | $ 2,645,598 |
| Less current portion | (606,648) | (600,816) |
| **Long term** | **$ 1,964,804** | **$ 2,044,782** |

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

| For the years ending December 31, | Minimum Lease Payments |
|---|---|
| Remainder of 2023 | $ 858,972 |
| 2024 | 750,076 |
| 2025 | 573,133 |
| 2026 | 404,751 |
| 2027 | 346,812 |
| Thereafter | 335,903 |
| Total minimum lease payments | 3,269,647 |
| Less: Amount representing interest | (698,195) |
| **Net lease obligations** | **$ 2,571,452** |

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 11 – RISKS AND UNCERTAINTIES**

Concentration Risk

The table below shows customers who account for 10% or more of the Company's total revenues and 10% or more of the Company's accounts receivable for the periods presented:

*Customers exceeding 10% of revenue*

| | Three Months Ended March 31, | |
|---|---|---|
| Company Customer Number | 2023 | 2022 |
| C000001462 | * | 25 % |
| C000001140 | * | 16 % |
| C000000114 | * | 11 % |
| C000001472 | * | 11 % |
| C000002187 | 43 % | * |
| C000002336 | 17 % | * |

*Amounts less than 10%

*Customers exceeding 10% of accounts receivable*

| Company Customer Number | As of March 31, 2023 | As of December 31, 2022 |
|---|---|---|
| C000002151 | * | 10 % |
| C000002187 | 41 % | 24 % |
| C000002336 | 14 % | * |

*Amounts less than 10%

The table below shows vendors who account for 10% or more of the Company's total purchases and 10% or more of the Company's accounts payable for the periods presented:

*Vendors exceeding 10% of purchases*

| | Three Months Ended March 31, | |
|---|---|---|
| Company Vendor Number | 2023 | 2022 |
| V000001029 | * | 26 % |
| V000000453 | * | 19 % |
| V000002275 | 19 % | * |
| V000001372 | * | 11 % |

*Amounts less than 10%

*Vendors exceeding 10% of accounts payable*

| Company Vendor Number | As of March 31, 2023 | As of December 31, 2022 |
|---|---|---|
| V000001910 | * | 11 % |
| V000002275 | 20 % | * |

*Amounts less than 10%

Foreign Exchange Risk

Although our revenues and expenses are expected to be predominantly denominated in United States dollars, we may be exposed to currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar, the Canadian dollar, the Euro, and the currency of other regions in which we may operate may have a material adverse effect on our business, financial condition and operating results. We may, in the future, establish a program to hedge a portion of our foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if we develop a hedging program, it may not mitigate currency risks.

**NOTE 12 – STOCK-BASED COMPENSATION**

Stock-based compensation expense for the three months ended March 31, 2023 and 2022 was $479,641 and $882,000, respectively, based on the vesting schedule of the stock grants and options. During the three months ended March 31, 2023, 103,572 shares were issued to employees and directors for grants that vested December 31, 2022.

The Company has adopted equity incentive plans ("Incentive Plans") which provide for the issuance of incentive stock options, stock grants and stock-based awards to employees, directors, and consultants of the Company to reward and attract employees and compensate the Company's Board of Directors (the "Board") and vendors when applicable. The Incentive Plans are administered by the Company's Board. Stock grants under the Incentive Plans 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, the remaining contractual term of the options, risk-free interest rate and expected volatility of the price of the underlying common stock of 100%. There is a moderate degree of subjectivity involved when estimating the value of stock options with the Black-Scholes option pricing model as the assumptions used are moderately judgmental. Stock grants and stock options are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. Stock grants and stock options typically require a 1 to 3 year period of continued employment or service performance before the stock grant or stock option vests. No cash flow effects are anticipated for stock grants.

The following schedule shows stock grant activity for the three months ended March 31, 2023:

| | Number of Shares |
|---|---|
| **Grants unvested as of December 31, 2022** | **494,859** |
| Grants awarded | 238,071 |
| Forfeiture/cancelled | (3,533) |
| Grants vested | (103,572) |
| **Grants unvested as of March 31, 2023** | **625,825** |

The following table summarizes stock grant vesting periods:

| Number of Shares | Unrecognized Stock Compensation Expense | As of December 31, |
|---|---|---|
| 231,192 | $ 940,043 | 2023 |
| 205,374 | 694,076 | 2024 |
| 47,315 | 120,173 | 2025 |
| 141,944 | — | 2026 |
| **625,825** | **$ 1,754,292** | |

The following schedule shows stock option activity for the three months ended March 31, 2023.

| | Number of Shares | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price |
|---|---|---|---|
| **Stock options outstanding as of December 31, 2022** | **669,388** | **7.9** | **$ 6.77** |
| Issued | — | 0 | $ — |
| Forfeited | (2,803) | 0 | $ 9.39 |
| Exercised | — | 0 | $ — |
| **Stock options outstanding as of March 31, 2023** | **666,585** | **7.6** | **$ 6.77** |
| **Stock options exercisable as of March 31, 2023** | **618,651** | **6.5** | **$ 6.30** |

The following table summarizes stock option vesting periods under the Incentive Plans:

| Number of Shares | Unrecognized Stock Compensation Expense | As of March 31, |
|---|---|---|
| 36,286 | $ 125,518 | 2023 |
| 11,648 | 39,044 | 2024 |
| **47,934** | **$ 164,562** | |

The aggregate intrinsic value of the options outstanding and exercisable at March 31, 2023 is $0.

**NOTE 13 – STOCKHOLDERS' EQUITY**

On May 24, 2021, the Board authorized a stock repurchase program to purchase up to $5.0 million of the currently outstanding shares of the Company's common stock, over a period of 12 months through open market purchases, in compliance with Rule 10b-18 under the Securities Exchange Act of 1934. On January 18, 2022, the Board authorized a $2.0 million increase to the stock repurchase program, to a total of $7.0 million. On February 2, 2022, the Board authorized an additional $1.5 million increase to the stock repurchase, to a total of $8.5 million. On September 12, 2022, the Board authorized an additional $2 million increase to the stock repurchase, to a total of $10.5 million. In total, the Company has repurchased 1,099,833 shares of common stock at an average price per share of $8.25 for a total of $9.1 million, under this program.

During the three months ended March 31, 2023, the Company did not repurchase shares of common stock. During the three months ended March 31, 2022, the Company repurchased 419,088 shares of common stock at an average price per share of $9.02, for a total price of $3.8 million under this program. As of March 31, 2023, we have $1.4 million remaining under the repurchase program.

In February 2021, the Company repurchased 350,000 shares of common stock with an average price per share of $8.50, for a total of $3.0 million, outside of any stock repurchase or publicly announced program.

**NOTE 14 – WARRANTS**

The following table shows warrant activity for the three months ended March 31, 2023.

| | Number of Shares | Weighted Average Exercise Price |
|---|---|---|
| **Warrants outstanding as of December 31, 2022** | 311,499 | $ 12.32 |
| Exercised | — | $ — |
| Terminated – cashless exercise | — | $ — |
| **Warrants outstanding as of March 31, 2023** | **311,499** | **$ 12.32** |
| **Warrants exercisable as of March 31, 2023** | **311,499** | **$ 12.32** |

The weighted-average life of the warrants is 1.6. The aggregate intrinsic value of the warrants outstanding and exercisable as of March 31, 2023 is $0.

**NOTE 15 – INCOME TAXES**

The Company has experienced cumulative losses for both book and tax purposes since inception. The potential future recovery of any tax assets that the Company may be entitled to due to these accumulated losses is uncertain and any tax assets that that the Company may be entitled to have been fully reserved based on management's current estimates. Management intends to continue maintaining a full valuation allowance on the Company's deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.The deferred income tax benefit for the three months ended March 31, 2023 and 2022 relates to the reduction in the deferred tax liability associated with the amortization of the intangible assets from the acquisitions of the 2WR Entities and Emerald.

**NOTE 16 – SUBSEQUENT EVENTS**

None.

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

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

## OVERVIEW AND HISTORY

urban-gro is an integrated professional services and design-build firm. Our business focuses primarily on providing fee-based knowledge-based services as well as the value-added reselling of equipment. We derive income from our ability to generate revenue from our clients through the billing of our employees' time spent on client projects. We offer value-added architectural, engineering, systems procurement and integration, and construction design-build solutions to customers operating in the CEA and Commercial sectors. In the CEA sector, our clients include operators and facilitators in both the cannabis and produce markets in the United States, Canada, and Europe. In the Commercial sector, we work with leading food and beverage commercial packaged goods ("CPG") companies in the United States, and clients in other commercial sectors including healthcare, higher education, and hospitality. During 2022 and 2021, we made the following acquisitions:

- October 2022 - An engineering firm ("DVO")
- April 2022 - A construction design-build firm ("Emerald")
- July 2021 - Three affiliated architecture design companies (the "2WR Entities")

## RESULTS OF OPERATIONS

*Comparison of Results of Operations for the three months ended March 31, 2023 and 2022*

During the three months ended March 31, 2023, we generated revenues of $16.8 million compared to revenues of $21.1 million during the three months ended March 31, 2022, a decrease of $4.3 million, or 20%. This decrease in revenues is the net result of the following changes in individual revenue components:

- Equipment systems revenue decreased $14.2 million due to negative market conditions in the cannabis sector and a reduction in capital equipment spending by customers; and
- Services revenue decreased $0.2 million;
- Construction design-build revenue increased $10.2 million, as a result of the acquisition of Emerald;
- Other revenues decreased $0.2 million.

During the three months ended March 31, 2023, cost of revenues was $13.9 million compared to $16.2 million during the three months ended March 31, 2022, a decrease of $2.2 million, or 14%. This decrease is directly attributable to the overall decrease in revenues indicated above and was further impacted by the change in individual revenue components.

Gross profit was $2.8 million (17% of revenues) during the three months ended March 31, 2023, compared to $4.9 million (23% of revenue) during the three months ended March 31, 2022. Gross profit as a percentage of revenues decreased primarily due to a decrease in higher margin equipment systems revenue as well as an increase in lower margin construction design-build revenue.

Operating expenses increased by $2.1 million, or 37%, to $7.9 million for the three months ended March 31, 2023 compared to $5.8 million for the three months ended March 31, 2022. This overall increase in operating expenses was the result of the net effects of the following: a $2.4 million increase in general and administrative operating expenses due to (i) increases in salary and personnel related costs attributable to the acquisitions of the DVO and Emerald entities, (ii) increased legal expenses and (iii) implementation of an incentive retention plan in 2023; a $0.4 million decrease in stock-based compensation expense, due to a reduction in the number of employees receiving stock-based compensation; and a $0.1 million increase in intangible asset amortization due to increased intangibles associated with the acquisitions of Emerald and DVO.

Non-operating expense was $0.2 million for the three months ended March 31, 2023, compared to non-operating income of $0.1 million for the three months ended March 31, 2022, an increase of $0.2 million. This was primarily due to a $0.2 million loss recognized from the remeasurement of contingent consideration from the Emerald acquisition.

Deferred income tax benefit decreased by $0.04 million million due to amortization of the deferred tax liabilities from the acquisitions of the 2WR Entities and Emerald.

As a result of the above, we incurred a net loss of $5.1 million for the three months ended March 31, 2023, or a net loss per share of $0.48, compared to a net loss per share of $0.07 for the three months ended March 31, 2022.

**NON-GAAP FINANCIAL MEASURES**

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

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

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

| | **Three Months Ended March 31,** | |
|---|---|---|
| | **2023** | **2022** |
| **Net loss** | **$ (5,144,649)** | **$ (696,217)** |
| Interest expense | 73,216 | 7,658 |
| Interest income | (73,131) | (79,852) |
| Income tax benefit | (65,132) | (108,060) |
| Depreciation and amortization | 404,069 | 218,278 |
| **EBITDA** | **(4,805,627)** | **(658,193)** |
| | | |
| Non-recurring legal fees | 216,739 | 161,546 |
| Contingent consideration - change in fair value | 160,232 | — |
| Contingent consideration - DVO acquisition | 46,267 | — |
| Retention incentive | 450,000 | — |
| Stock-based compensation | 479,641 | 882,000 |
| Transaction costs | 35,078 | 55,225 |
| **Adjusted EBITDA** | **$ (3,417,670)** | **$ 440,578** |

**BACKLOG**

Backlog is a financial measure that generally reflects the dollar value of revenue that the Company expects to realize in the future. Although backlog is not a term recognized under generally accepted accounting principles in the United States ("GAAP"), it is a common measure used by companies operating in our industries. We report backlog for the following revenue categories: (i) Equipment Systems; (ii) Construction design-build; and (iii) Services. We define backlog for Equipment Systems and Services as signed contracts, with Equipment Systems contracts generally requiring a receipt of a customer deposit. Construction design-build backlog is comprised of construction projects once the contract is awarded and to the extent we believe funding is probable. Our Construction design/build backlog consists of uncompleted work on contracts in progress and contracts for which we have executed a contract but have not commenced the work. For uncompleted work on contracts in progress, we include (i) executed change orders, (ii) pending change orders for which we expect to receive confirmation in the ordinary course of business, and (iii) claims that we have made against our customers for which we have determined we have a legal basis under existing contractual arrangements and as to which we consider collection to be probable.

Backlog for each of our revenue categories as of March 31, 2023 and December 31, 2022 is reflected in the following tables:

| | March 31, 2023 | | | |
|---|---|---|---|---|
| | CEA | Commercial | Total | Relative Percentage |
| | (in millions) | | | |
| Equipment systems | $ 5 | $ — | $ 5 | 5 % |
| Services | 2 | 2 | 4 | 4 % |
| Construction design-build [1] | 67 | 29 | 96 | 91 % |
| Total backlog | $ 74 | $ 31 | $ 105 | 100 % |
| Relative percentage | 70 % | 30 % | 100 % | |

Note: Percentages may not add up due to rounding.

[1] Construction design-build revenue and backlog relate to the operations of Emerald, which was acquired by the Company on April 29, 2022.

| | December 31, 2022 | | | |
|---|---|---|---|---|
| | CEA | Commercial | Total | Relative Percentage |
| | (in millions) | | | |
| Equipment systems | $ 5 | $ — | $ 5 | 5 % |
| Services | 4 | 2 | 6 | 6 % |
| Construction design-build [1] | 67 | 15 | 82 | 88 % |
| Total backlog | $ 76 | $ 17 | $ 93 | 100 % |
| Relative percentage | 82 % | 18 % | 100 % | |

Note: Percentages may not add up due to rounding.

[1] Construction design-build revenue and backlog relate to the operations of Emerald, which was acquired by the Company on April 29, 2022.

Historically, the majority of our Equipment Systems and Services backlog has been retired and converted into revenue within two quarters. At March 31, 2023, we expected approximately 40% of our Construction design-build backlog to be completed in the next 12 months. At March 31, 2023 and December 31, 2022, one customer accounted for 40% and 46% of total backlog, respectively.

Certain Construction design-build contracts contain options that are exercisable at the discretion of our customer to award additional work to us, without requiring us to go through an additional competitive bidding process. In addition, some customer contracts also contain task orders that are signed under master contracts pursuant to which we perform work only when the customer awards specific task orders to us.

Contracts in our Construction design-build backlog may be canceled or modified at the election of the customer. Many Construction design-build projects are added to our contract backlog and completed within the same fiscal year and therefore may not be reflected in our beginning or quarter-end Construction design-build backlog amounts.

## LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2023, we had working capital of $6.0 million, compared to working capital of $10.3 million as of December 31, 2022, a decrease of $4.3 million. This decrease in working capital was primarily due to a decrease in cash (which is further detailed below) and the net effects of an increase in accounts payable and accrued expenses of $7.1 million and an increase of accounts receivable of $6.8 million. Due to the acquisition of Emerald in 2022, the Company includes in working capital contract receivables and liabilities related to construction projects. These construction working capital balances are described in further detail in our consolidated financial statements, including the accompanying notes.

As of March 31, 2023, we had cash of $7.3 million, which represented a decrease of $4.7 million from December 31, 2022 due to the following changes during the three months ended March 31, 2023:

- Net cash used in operating activities was $4.3 million. This use of cash is the net effect of the net loss of $5.1 million, offset by non-cash expenses of $1.3 million, and a reduction in net operating assets and liabilities of $0.4 million. The $0.4 million reduction in net operating assets and liabilities is due to the net effects of a $0.2 million decrease in customer deposits, a $7.1 million increase in accounts payable and accrued expenses, a $0.3 million decrease in prepayments and other assets, and a $6.8 million increase in accounts receivable. Accounts receivable increased from the balance as of December 31, 2022 primarily due to an increase in receivables from our major customer. This customer is a Fortune 500 company and is in the process of transitioning their accounts payable processing to an offshoring system. We are working directly with this customer to ensure that all of our invoices are being properly processed and will be paid on a timely basis going forward.

- Net cash used in investing activities was $0.1 million, primarily from the acquisition of property, plant and equipment. We have no material commitments for capital expenditures as of March 31, 2023.

- Net cash used in financing activities was $0.3 million, primarily due to the payment of the contingent consideration from our acquisitions.

## INFLATION

Inflation has resulted in increased costs for our customers. In addition, the U.S. Government has responded to inflation by raising interest rates, which has increased the cost of capital for our customers. We believe this has resulted in some customers delaying projects, reducing the scope of projects or potentially canceling projects, as well as increased costs of our operations, which has negatively impacted the results of our operations during the quarter ended March 31, 2023. We maintain strategies to mitigate the impact of higher material, energy and commodity costs, including cost reduction, alternative sourcing strategies, and passing along cost increase to customers, which may offset only a portion of the adverse impact.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

***Critical Accounting Policies and Estimates***

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion about the Company's significant accounting policies, refer to Note 2 — "Summary of Significant Accounting Policies," in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. During the three months ended March 31, 2023, there were no material changes made to the Company's significant accounting policies.

## OFF-BALANCE SHEET ARRANGEMENTS

We have not entered into any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources and would be considered material to investors.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

## ITEM 4. CONTROLS AND PROCEDURES.

### DISCLOSURE CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures*

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

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

Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of March 31, 2023, at reasonable assurance levels.

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

*Inherent Limitations*

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

*Changes in Internal Control over Financial Reporting*

There were no changes in our internal control over financial reporting during the three months ended March 31, 2023, which were identified in conjunction with management’s evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

# PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time, we become involved in or are threatened with legal disputes. Most of these disputes are not likely to have a material effect on our business, financial condition, or operations. No new material legal proceedings were initiated or terminated during the period covered by this report and there have been no material developments in the material proceedings identified in Part 1, Item 3 of our annual report on form 10-K for the year ended December 31, 2022.

## ITEM 1A. RISK FACTORS

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

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Stock Repurchase Program

The Company's Board has authorized the Company to repurchase common stock through a variety of methods, including open market repurchases, purchases by contract (including, without limitation, 10b5-1 and 10b-18 plans), and/or privately negotiated transactions. The amount, timing, or prices of repurchases, may vary based on market conditions and other factors. The Program does not have an expiration date and can be modified or terminated by the Board at any time. On May 24, 2021, the Board authorized a stock repurchase program to purchase up to $5.0 million of outstanding shares of the Company's common stock. On January 18, 2022, the Board authorized a $2.0 million increase to the stock repurchase program, to a total of $7.0 million. On February 2, 2022, the Board authorized an additional $1.5 million increase to the stock repurchase, to a total of $8.5 million. On September 12, 2022, the Board authorized an additional $2.0 million increase to the stock repurchase program, to a total of $10.5 million. Since inception of the stock repurchase programs, the Company has repurchased 1.1 million shares at an average price per share of $8.25 for a total of $9.1 million. In February 2021, the Company repurchased 350,000 shares of common stock with an average price per share of $8.50, for a total of $3.0 million, outside of any stock repurchase or publicly announced program.

During the three months ended March 31, 2023, there were no purchases by us of our common stock.

### Unregistered Shares Issued in Connection with Acquisitions

During the three months ended, March 31, 2023, we issued 64,224 shares at a price per share of $2.99 as payment for contingent consideration associated with the 2WR acquisition.

On October 31, 2022, the Company issued 271,875 shares of the Company's common stock at a price per share of $4.06 for a total value of $1.1 million as part of the Initial Purchase Price of the DVO Acquisition as more fully described in Note 1 to the Condensed Consolidated Financial Statements.

On April 29, 2022, the Company issued 283,515 shares of the Company's common stock at a price per share of $8.82 for a total value of $2.5 million as part of the Initial Purchase Price of the Emerald Acquisition as more fully described in Note 1 to the Condensed Consolidated Financial Statements.

The foregoing issuances of restricted shares of common stock were issued under Section 4(a)(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder. The Company believes the issuances of the foregoing restricted shares were exempt from registration as each was a privately negotiated, isolated, non-recurring transaction not involving a public solicitation. No commissions were paid regarding the share issuances, and the share certificates were issued with a Rule 144 restrictive legend.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

## ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

## ITEM 5. OTHER INFORMATION

None.

**ITEM 6. EXHIBITS**

| Exhibit No. | Exhibit Description |
|---|---|
| 3.1 | Certificate of Incorporation of urban-gro, Inc. (incorporated by reference to Exhibit 3.3 to Form 8-K filed October 30, 2020). |
| 3.2 | Certificate of Amendment to Certificate of Incorporation of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 5, 2021). |
| 3.3 | Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.4 to Form 8-K filed October 30, 2020). |
| 3.4 | Amendment No. 1 to Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 12, 2021). |
| 10.1 | Employment Agreement by and between urban-gro, Inc. and Jason T. Archer, dated January 12, 2023. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Schema Document |
| 101.CAL | Inline XBRL Calculation Linkbase Document |
| 101.DEF | Inline XBRL Definition Linkbase Document |
| 101.LAB | Inline XBRL Label Linkbase Document |
| 101.PRE | Inline XBRL Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (Embedded within the Inline XBRL document) |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 10, 2023.

**URBAN-GRO, INC.**

By: */s/ Bradley Nattrass*

Bradley Nattrass
Chairperson of the Board of Directors and Chief Executive Officer
(Principal Executive Officer)

By: */s/ Richard Akright*

Richard A. Akright
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

**Exhibit 31.1**

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

I, Bradley Nattrass, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2023

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

**Exhibit 31.2**

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

I, Richard A. Akright, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2023

*/s/ Richard A. Akright*

Richard A. Akright
Chief Financial Officer

**Exhibit 32.1**

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

In connection with this quarterly report of urban-gro, Inc. (the “Company”) on Form 10-Q for the three months ended March 31, 2023, as filed with the Securities and Exchange Commission on May 10, 2023, (the “Report”), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

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

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

| | |
|---|---|
| Dated: May 10, 2023 | */s/ Bradley Nattrass* |
| | Bradley Nattrass |
| | Chairperson of the Board of Directors and Chief Executive Officer |
| | |
| Dated: May 10, 2023 | */s/ Richard A. Akright* |
| | Richard A. Akright |
| | Chief Financial Officer |