

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 **September 30, 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
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 October 26, 2023 was 1,670,580 shares.

TABLE OF CONTENTS

<u>Item No.</u>		<u>Page No.</u>
<u>PART I. FINANCIAL INFORMATION</u>		
Item 1.	<u>Financial Statements (Unaudited)</u>	5
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	5
	<u>Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss</u>	7
	<u>Unaudited Condensed Consolidated Statements of Stockholders' Equity</u>	8
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	9
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	10
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4.	<u>Controls and Procedures</u>	31
<u>PART II. OTHER INFORMATION</u>		
Item 1.	<u>Legal Proceedings</u>	32
Item 1A.	<u>Risk Factors</u>	32
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 3.	<u>Defaults Upon Senior Securities</u>	33
Item 4.	<u>Mine Safety Disclosures</u>	33
Item 5.	<u>Other Information</u>	33
Item 6.	<u>Exhibits</u>	34
	<u>Signatures</u>	35

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,” “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 Environmental, Social and Governance (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 Securities and Exchange Commission (SEC).

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

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

	<u>September 30, 2023</u>	<u>December 31, 2022</u>
ASSETS		
Current assets:		
Cash	\$ 4,770,430	\$ 12,008,003
Accounts receivable, net	18,341,489	15,380,292
Contract receivables	8,378,657	3,004,282
Prepaid expenses and other assets	3,268,279	4,164,960
Total current assets	34,758,855	34,557,537
Non-current assets:		
Property and equipment, net	1,456,009	1,307,146
Operating lease right of use assets, net	2,217,738	2,618,825
Investments	—	2,559,307
Goodwill	15,572,050	15,572,050
Intangible assets, net	4,634,672	5,450,687
Total non-current assets	23,880,469	27,508,015
Total assets	\$ 58,639,324	\$ 62,065,552
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 22,194,304	\$ 9,960,364
Accrued expenses	4,074,098	3,196,961
Contract liabilities	1,981,728	1,294,452
Customer deposits	969,888	2,571,161
Contingent consideration	161,947	2,799,287
Promissory notes	1,964,775	3,832,682
Operating lease liabilities	598,447	600,816
Total current liabilities	31,945,187	24,255,723
Non-current liabilities:		
Operating lease liabilities	1,666,138	2,044,782
Deferred tax liability	865,802	1,033,283
Total non-current liabilities	2,531,940	3,078,065
Total liabilities	34,477,127	27,333,788
Commitments and contingencies (note 10)		
Stockholders' equity		
Preferred stock, \$0.10 par value; 3,000,000 shares and 10,000,000 shares authorized as of September 30, 2023, and December 31, 2022, respectively; 0 shares issued and outstanding	—	—
Common stock, \$0.001 par value; 30,000,000 shares and 100,000,000 shares authorized as of September 30, 2023, and December 31, 2022, respectively; 13,120,413 shares issued and 11,670,580 shares outstanding as of September 30, 2023; 12,220,593 shares issued and 10,770,760 shares outstanding as of December 31, 2022	13,120	12,221
Additional paid-in capital	88,268,286	84,882,982
Treasury shares, cost basis: 1,449,833 shares at September 30, 2023 and at December 31, 2022	(12,045,542)	(12,045,542)
Accumulated deficit	(52,073,667)	(38,117,897)

Total stockholders' equity	<u>24,162,197</u>	<u>34,731,764</u>
Total liabilities and stockholders' equity	<u>\$ 58,639,324</u>	<u>\$ 62,065,552</u>

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Equipment systems	\$ 3,043,659	\$ 3,879,272	\$ 10,575,367	\$ 31,024,187
Services	2,898,739	2,839,338	9,403,968	9,505,396
Construction design-build	14,813,486	5,384,267	36,068,435	8,301,588
Other	178,439	265,416	489,482	871,488
Total revenues and other income	<u>20,934,323</u>	<u>12,368,293</u>	<u>56,537,252</u>	<u>49,702,659</u>
Cost of revenues:				
Equipment systems	2,766,116	3,212,285	9,287,704	26,132,828
Services	1,768,164	1,796,968	5,715,548	4,677,887
Construction design-build	13,413,067	4,570,506	32,605,681	7,263,206
Other	130,258	195,938	355,121	632,181
Total cost of revenues	<u>18,077,605</u>	<u>9,775,697</u>	<u>47,964,054</u>	<u>38,706,102</u>
Gross profit	<u>2,856,718</u>	<u>2,592,596</u>	<u>8,573,198</u>	<u>10,996,557</u>
Operating expenses:				
General and administrative	5,000,846	5,792,418	17,974,049	14,758,506
Stock-based compensation	722,647	96,767	1,824,835	1,860,767
Intangible asset amortization	241,832	304,339	816,015	773,063
Business development	—	3,299,864	—	3,299,864
Total operating expenses	<u>5,965,325</u>	<u>9,493,388</u>	<u>20,614,899</u>	<u>20,692,200</u>
Loss from operations	<u>(3,108,607)</u>	<u>(6,900,792)</u>	<u>(12,041,701)</u>	<u>(9,695,643)</u>
Non-operating income (expense):				
Interest expense	(39,928)	(7,088)	(158,134)	(22,270)
Interest income	19,461	94,200	167,652	221,329
Write-down of investment	(258,492)	(1,710,358)	(258,492)	(1,710,358)
Contingent consideration	—	—	(160,232)	—
Loss on settlement	—	—	(1,500,000)	—
Other income (expense)	(28,605)	(210,399)	(172,344)	(147,528)
Total non-operating income (expense)	<u>(307,564)</u>	<u>(1,833,645)</u>	<u>(2,081,550)</u>	<u>(1,658,827)</u>
Loss before income taxes	<u>(3,416,171)</u>	<u>(8,734,437)</u>	<u>(14,123,251)</u>	<u>(11,354,470)</u>
Income tax benefit	48,383	73,654	167,481	258,166
Net loss	<u>\$ (3,367,788)</u>	<u>\$ (8,660,783)</u>	<u>\$ (13,955,770)</u>	<u>\$ (11,096,304)</u>
Comprehensive loss	<u>\$ (3,367,788)</u>	<u>\$ (8,660,783)</u>	<u>\$ (13,955,770)</u>	<u>\$ (11,096,304)</u>
Loss per share - basic and diluted	\$ (0.29)	\$ (0.81)	\$ (1.29)	\$ (1.05)
Weighted average shares - basic and diluted	11,649,790	10,674,796	10,859,820	10,577,453

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	—	—	—	(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
Stock-based compensation	—	—	622,547	—	—	622,547
Stock grant program vesting	86,020	86	(86)	—	—	—
Stock issued for contingent consideration	582,000	582	1,292,101	—	—	1,292,683
Net loss	—	—	—	(5,443,333)	—	(5,443,333)
Balance, June 30, 2023	13,056,409	\$ 13,056	\$ 87,468,937	\$ (48,705,879)	\$ (12,045,542)	\$ 26,730,572
Stock-based compensation	—	—	722,647	—	—	722,647
Stock grant program vesting	8,772	9	(9)	—	—	—
Stock issued for contingent consideration	55,232	55	76,711	—	—	76,766
Net loss	—	—	—	(3,367,788)	—	(3,367,788)
Balance, September 30, 2023	13,120,413	\$ 13,120	\$ 88,268,286	\$ (52,073,667)	\$ (12,045,542)	\$ 24,162,197

	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	—	—	—	—	(3,773,177)	(3,773,177)
Stock exercised	4,555	5	28,792	—	—	28,797
Stock issued with exercise of warrants	34,863	35	(35)	—	—	—
Net Loss	—	—	—	(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
Stock-based compensation	—	—	882,000	—	—	882,000
Stock issuance related to acquisition	283,515	283	2,499,717	—	—	2,500,000
Net Loss	—	—	—	(1,739,304)	—	(1,739,304)
Balance, June 30, 2022	11,911,043	\$ 11,911	\$ 82,971,694	\$ (25,275,509)	\$ (11,456,667)	\$ 46,251,429
Stock-based compensation	—	—	96,767	—	—	96,767
Treasury stock	—	—	—	—	(183,270)	(183,270)
Stock grant program vesting	37,675	38	(38)	—	—	—
Net loss	—	—	—	(8,660,783)	—	(8,660,783)
Balance, September 30, 2022	11,948,718	\$ 11,949	\$ 83,068,423	\$ (33,936,292)	\$ (11,639,937)	\$ 37,504,143

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

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

	Nine Months Ended September 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (13,955,770)	(11,096,304)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,201,201	1,116,585
Deferred income tax benefit	(167,481)	(258,166)
Stock-based compensation expense	1,824,835	1,860,767
Impairment of investment	258,492	1,710,358
Change in fair value of contingent consideration	160,232	—
Other, net	561,518	(42,373)
Changes in operating assets and liabilities (net of acquired amounts):		
Accounts receivable and contract receivables	(8,782,141)	2,222,194
Prepaid expenses and other assets and property and equipment	1,498,518	7,150,147
Accounts payable, contract liabilities, and accrued expenses	13,927,217	(97,142)
Change in contingent consideration from indemnification	(917,699)	—
Operating lease liability	(529,746)	(139,251)
Customer deposits	(1,601,273)	(11,415,622)
Net cash used in operating activities	(6,522,097)	(8,988,807)
Cash flows from investing activities:		
Sale of investment	2,326,472	—
Business combinations, net of cash acquired	—	(2,709,148)
Purchases of property and equipment	(456,484)	(252,902)
Net cash provided by (used in) investing activities	1,869,988	(2,962,050)
Cash flows from financing activities:		
Proceeds from issuance of common stock	—	28,796
Repurchase of common stock	—	(3,956,447)
Additions to promissory notes	518,400	—
Repayment of finance lease ROU liability	(133,388)	(108,500)
Payments to settle contingent consideration	(479,365)	—
Repayment of promissory notes	(2,491,111)	—
Net cash used in financing activities	(2,585,464)	(4,036,151)
Net change in cash	(7,237,573)	(15,987,008)
Cash at beginning of period	12,008,003	34,592,190
Cash at end of period	\$ 4,770,430	\$ 18,605,182
Supplemental cash flow information:		
Cash paid for interest	\$ 21,334	\$ 22,271
Net cash paid for income taxes	\$ 165,228	\$ —
Supplemental disclosure of non-cash investing and financing activities:		
Stock issued for acquisitions	\$ —	\$ 2,500,000
Operating lease right of use assets and liabilities extension	\$ 295,631	\$ 542,903

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. 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 was initially to be paid out over four quarters beginning in January 2023. In the third quarter of 2023, a portion of that quarter’s note payment was extended to the first quarter of 2024. The Seller’s promissory note balances as of September 30, 2023, and December 31, 2022, were \$1,446,375 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, at the Company’s discretion, in cash or 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	\$ 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 provisions 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. Per the amendment, the remaining contingent consideration earnout is payable quarterly, at the Company’s discretion, in cash or in shares of the Company’s common stock with the value of such shares being determined based upon the VWAP of the Company’s common stock in the ten trading days prior to the end of the applicable quarter.

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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Equipment systems	\$ 3,043,659	\$ 3,879,272	\$ 10,575,367	\$ 31,024,187
Services	2,898,739	2,839,338	9,403,968	9,505,396
Construction design-build	14,813,486	5,384,267	36,068,435	19,983,037
Other	178,439	265,416	489,482	871,488
Total revenues and other income	20,934,323	12,368,293	56,537,252	61,384,108
Net loss	\$ (3,367,788)	\$ (11,893,644)	\$ (13,955,770)	\$ (13,443,932)

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.

Per the Emerald Acquisition Agreement and Plan of Merger (the “Emerald Acquisition Agreement”), when the Company acquired all of the issued and outstanding capital stock of Emerald, the Emerald Sellers indemnified the Company for any material liabilities, losses, and actions or inaction which took place prior to the acquisition and that were not disclosed as part of the transaction. To that end, a pre-acquisition Emerald project incurred a substantial loss that was not disclosed in the Emerald Acquisition Agreement. The majority shareholder of Emerald has agreed to indemnify the Company for the loss, which is currently estimated to be \$2.3 million (the “Indemnified Loss”). In the second quarter of 2023, the Company offset \$1.0 million of the Indemnified Loss against the total remaining contingent consideration and certain other liabilities owed to the majority shareholder of Emerald thereby resulting in a net amount due from the majority shareholder of Emerald to \$1.3 million. Further, the Company has agreed to satisfy up to \$1.2 million of the Indemnified Loss in the event a certain Emerald project is above a 7% profit margin, on a dollar for dollar basis.

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 accounting principles generally accepted in the United States of America (“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 nine months ended September 30, 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 the Company collects cash from its construction design-build customers can create a contract asset or contract liability. 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 September 30, 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 and nine months ended September 30, 2023, and 2022:

	CEA		Commercial		Total	
	For the three months ended September 30,		For the three months ended September 30,		For the three months ended September 30,	
	2023	2022	2023	2022	2023	2022
Equipment systems	\$ 3,043,659	\$ 3,879,272	\$ —	\$ —	\$ 3,043,659	\$ 3,879,272
Services	723,996	1,815,025	2,174,743	1,024,313	2,898,739	2,839,338
Construction design-build	1,866,394	357,885	12,947,092	5,026,382	14,813,486	5,384,267
Other	178,439	265,416	—	—	178,439	265,416
Total revenues and other income	\$ 5,812,488	\$ 6,317,598	\$ 15,121,835	\$ 6,050,695	\$ 20,934,323	\$ 12,368,293
Relative percentage	28 %	51 %	72 %	49 %	100 %	100 %

	CEA		Commercial		Total	
	For the nine months ended September 30,		For the nine months ended September 30,		For the nine months ended September 30,	
	2023	2022	2023	2022	2023	2022
Equipment systems	\$ 10,575,367	\$ 31,024,187	\$ —	\$ —	\$ 10,575,367	\$ 31,024,187
Services	3,538,683	5,877,320	5,865,285	3,628,076	9,403,968	9,505,396
Construction design-build	2,657,343	1,160,759	33,411,092	7,140,829	36,068,435	8,301,588
Other	489,482	871,488	—	—	489,482	871,488
Total revenues and other income	\$ 17,260,875	\$ 38,933,754	\$ 39,276,377	\$ 10,768,905	\$ 56,537,252	\$ 49,702,659
Relative percentage	31 %	78 %	69 %	22 %	100 %	100 %

Under Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*, 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 terms are fixed at the time of the contract and are not subject to discounts, incentives, payment bonuses, credits or 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, when the Company receives 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:

	September 30, 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	\$ 7,726,013	\$ 2,874,141
Retainage included in contract assets due to being conditional on something other than solely passage of time	652,644	130,141
Total contract assets	\$ 8,378,657	\$ 3,004,282
Contract liabilities:		
Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability)	\$ 1,954,561	\$ 1,294,452
Retainage included in contract liabilities due to being conditional on something other than solely passage of time	27,167	—
Total contract liabilities	\$ 1,981,728	\$ 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 September 30, 2023, and December 31, 2022, were \$15,237,726 and \$12,466,180, respectively.

Non-trade accounts receivable as of September 30, 2023, and December 31, 2022, were \$3,103,763 and \$2,914,112, respectively. Non-trade accounts receivable as of September 30, 2023, were comprised of the remaining Indemnified Loss receivable from the majority shareholder of Emerald further detailed in *Note 1 – Organization, Acquisitions, and Liquidity* and miscellaneous non-trade accounts receivable of \$591,850. Non-trade accounts receivable as of December 31, 2022, were comprised of miscellaneous non-trade accounts receivable 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

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. Another director of the Company is working on a vertical farming innovation model with a group of CEA experts (“the CEA Consortium”). The CEA Consortium contracts services from the Company related to their business model. The table below presents the revenues for these related party entities for the three and nine months ended September 30, 2023, and 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues - Cloud 9	\$ —	\$ 1,571	\$ 462	\$ 13,383
Revenues - Potco	139,031	1,080	987,268	12,480
Revenues - CEA Consortium	\$ 245,000	\$ —	\$ 245,000	\$ —
Total revenues from related party transactions	\$ 384,031	\$ 2,651	\$ 1,232,730	\$ 25,863

The table below presents the accounts receivable from these related party entities as of September 30, 2023, and December 31, 2022:

	September 30, 2023	December 31, 2022
Accounts receivable - Cloud 9	\$ —	\$ 3,920
Accounts receivable - Potco	240,615	20,174
Accounts receivable - CEA Consortium	\$ 245,000	\$ —
Total accounts receivable due from related party transactions	\$ 485,615	\$ 24,094

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. These amounts are summarized as follows:

	September 30, 2023	December 31, 2022
Vendor prepayments	\$ 1,564,039	\$ 2,459,389
Prepaid services and fees	1,410,639	1,346,430
Inventories	250,845	320,372
Other assets	42,756	38,769
Total Prepaid expenses and other assets	\$ 3,268,279	\$ 4,164,960

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment balances are summarized as follows:

	September 30, 2023	December 31, 2022
Computers and technology equipment	\$ 294,322	\$ 232,405
Furniture and fixtures	321,859	234,389
Leasehold improvements	228,760	306,719
Vehicles	432,823	456,797
Software	971,684	685,580
Research and development	87,425	—
Other equipment	58,525	58,525
Accumulated depreciation	(939,389)	(667,269)
Total Property and equipment, net	\$ 1,456,009	\$ 1,307,146

Depreciation expense totaled \$131,137 and \$222,411 for the three months ended September 30, 2023, and 2022, respectively, and totaled \$385,186 and \$343,524 for the nine months ended September 30, 2023, and 2022, respectively.

NOTE 7 – INVESTMENTS

The components of investments as of September 30, 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	—	25,657	25,657
Impairment	\$ —	\$ (258,492)	(258,492)
Sale of investment	\$ —	\$ (2,326,472)	(2,326,472)
Balances as of September 30, 2023	\$ —	\$ —	\$ —

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 expense 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 \$2.5 million of a total \$43.5 million 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 was to mature 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 (“CS”) 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. In August 2023, the Company entered into an agreement to sell back its investment to XSF for \$2.3 million and cancel the warrants. The Company received the \$2.3 million in proceeds on August 30, 2023. In connection with the agreement to sell the investment, the Company recorded an impairment loss of \$0.3 million.

NOTE 8 – GOODWILL & INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill in conjunction with the acquisitions it has completed. The goodwill balances as of September 30, 2023, and December 31, 2022, were \$15.6 million and \$15.6 million, respectively. Goodwill is not amortized. The Company did not record any impairment charges related to goodwill for the three or nine months ended September 30, 2023, and 2022.

Intangible Assets Other Than Goodwill

Intangible assets as of September 30, 2023, and December 31, 2022, consisted of the following:

	As of September 30, 2023		
	Cost	Accumulated Amortization	Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$ 4,212,100	\$ (854,317)	\$ 3,357,783
Trademarks and trade names	1,778,000	(574,517)	1,203,483
Backlog and other	768,113	(722,998)	45,115
Total finite-lived intangible assets:	6,758,213	(2,151,832)	4,606,381
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	\$ (2,151,832)	\$ 4,634,672

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 totaled \$241,832 and \$304,339 for the three months ended September 30, 2023, and 2022, respectively, and totaled \$816,015 and \$773,063 for the nine months ended September 30, 2023, and 2022, respectively.

The estimated future amortization expense for intangible assets subject to amortization as of September 30, 2023, is summarized below:

For the years ending December 31,	Estimated Future Amortization Expense
Remainder of 2023	\$ 250,010
2024	959,788
2025	959,788
2026	918,205
2027	693,555
Thereafter	825,035
Total estimated future amortization expense	\$ 4,606,381

NOTE 9 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 30, 2023	December 31, 2022
Accrued operating expenses	\$ 571,739	\$ 515,858
Accrued wages and related expenses	1,724,528	639,614
Accrued 401(k)	25,235	262,599
Accrued sales tax payable	1,752,596	1,778,890
Total accrued expenses	\$ 4,074,098	\$ 3,196,961

Accrued sales tax payable is comprised of amounts due to various states and Canadian provinces

NOTE 10 – OPERATING LEASE LIABILITIES AND COMMITMENTS AND CONTINGENCIES

The Company has eight 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 its various acquisitions. The remaining lease terms range from less than a year to 6 years, as of September 30, 2023. The following is a summary of operating lease liabilities:

	September 30, 2023	December 31, 2022
Operating lease liabilities related to right of use assets	\$ 2,264,585	\$ 2,645,598
Less current operating lease liabilities	(598,447)	(600,816)
Non-current operating lease liabilities	\$ 1,666,138	\$ 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	\$ 203,836
2024	754,076
2025	573,133
2026	404,751
2027	346,812
Thereafter	335,903
Total minimum lease payments	2,618,511
Less: Amount representing interest	(353,926)
Net lease obligations	\$ 2,264,585

From time to time, the Company is involved in routine litigation that arises in the ordinary course of business. There are no ongoing 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.

On August 11, 2023, the Company entered into a settlement agreement (the "Settlement Agreement") with Crest Ventures, LLC ("Crest") and Andrew Telsey to settle all claims in the litigation filed in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. Pursuant to the Settlement Agreement, the Company paid \$1,500,000 to Crest on September 7, 2023. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of \$1,500,000 in accordance with GAAP related to loss contingencies.

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

Company Customer Number	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
C000001462	*	*	*	12 %
C000001140	*	*	*	16 %
C000002187	20 %	*	23 %	*
C000001696	*	12 %	*	*
C000002345	18 %	*	*	*
C000002463	21 %	*	16 %	*

*Amounts less than 10%

Customers exceeding 10% of accounts receivable

Company Customer Number	September 30, 2023	December 31, 2022
C000002151	*	10 %
C000002187	24 %	24 %
C000002345	10 %	*

*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

Company Vendor Number	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
V000001029	*	*	*	19 %
V000002425	13 %	*	*	*
V000002275	*	*	12 %	*
V000002290	14 %	*	*	*
V000001326	*	10 %	*	*
V000002452	18 %	*	12 %	*

*Amounts less than 10%

Vendors exceeding 10% of accounts payable

Company Vendor Number	September 30, 2023	December 31, 2022
V000001910	*	11 %
V000002452	11 %	*
V000002275	16 %	*

*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

Based on the vesting schedule of the grants of restricted stock units (“RSU” or “RSUs”) and options, stock-based compensation expense totaled \$722,647 and \$96,767 for the three months ended September 30, 2023, and 2022, respectively, and totaled \$1,824,835 and \$1,860,767 for the nine months ended September 30, 2023, and 2022, respectively.

The Company has adopted the 2021 Omnibus Stock Incentive Plan, as amended (the “Omnibus Incentive Plan”), which provides for the issuance of incentive stock options, grants of RSUs, 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 Omnibus Incentive Plan is administered by the Company’s Board. Grants of RSUs under the Omnibus Incentive Plan are valued at no less than the market 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. Grants of RSUs and stock options are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. Grants of RSUs and stock options typically require a 1-to-3-year period of continued employment or service performance before the grant of RSUs or stock options vest. No cash flow effects are anticipated for grants of RSUs or stock options.

The following schedule shows grants of RSU activity for the nine months ended September 30, 2023:

	Number of Shares
Grants of RSUs unvested as of December 31, 2022	494,859
Grants of RSUs	524,609
Forfeiture/cancelled	(11,291)
Grants of RSUs vested and issued	(437,928)
Grants of RSUs unvested as of September 30, 2023	570,249

As of September 30, 2023, the Company has \$1.5 million in unrecognized stock-based compensation expense related to these grants of RSUs.

The following schedule shows stock option activity for the nine months ended September 30, 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	(7,105)	0	\$ 9.39
Exercised	—	0	\$ —
Stock options outstanding as of September 30, 2023	662,283	7.4	\$ 6.77
Stock options exercisable as of September 30, 2023	618,651	6.3	\$ 6.30

As of September 30, 2023, the Company has \$0.1 million in unrecognized stock-based compensation expense related to these stock options. The aggregate intrinsic value of the options outstanding and exercisable as of September 30, 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 \$2.0 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 \$0.25 for a total of \$9.1 million, under this program.

During the nine months ended September 30, 2023, the Company did not repurchase shares of common stock. During the nine months ended September 30, 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 September 30, 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 nine months ended September 30, 2023.

	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Warrants outstanding as of December 31, 2022	311,499	2.8	\$ 12.32
Exercised	—	0	\$ —
Expired	(1,000)	0	\$ 6.00
Warrants outstanding as of September 30, 2023	310,499	2.1	\$ 12.34
Warrants exercisable as of September 30, 2023	310,499	2.1	\$ 12.34

The aggregate intrinsic value of the warrants outstanding and exercisable as of September 30, 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 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 and nine months ended September 30, 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. The Company records state income taxes paid during the year within the *Other income (expense)* financial statement line item.

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 pages 3 - 4 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 controlled environment agriculture ("CEA") and industrial and other commercial ("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 September 30, 2023 and 2022

During the three months ended September 30, 2023, we generated revenues of \$20.9 million compared to revenues of \$12.4 million during the three months ended September 30, 2022, an increase of \$8.6 million, or 69%. This increase in revenues is the net result of the following changes in individual revenue components:

- Equipment systems revenue decreased \$0.8 million due to negative market conditions in the CEA sector and a reduction in capital equipment spending by customers;
- Services revenue was flat, which was the result of a decrease in revenues in our existing business due to negative market conditions in the CEA sector offset by an increase in revenues from the DVO acquisition;
- Construction design-build revenue increased \$9.4 million, primarily due to significant organic growth of our construction design-build revenue; and
- Other revenues decreased \$0.1 million.

During the three months ended September 30, 2023, cost of revenues was \$18.1 million compared to \$9.8 million during the three months ended September 30, 2022, an increase of \$8.3 million, or 85%. This increase is directly attributable to the overall increase in revenues indicated above and was further impacted by the change in individual revenue components.

Gross profit was \$2.9 million (14% of revenues) during the three months ended September 30, 2023, compared to \$2.6 million (21% of revenue) during the three months ended September 30, 2022. The overall gross profit as a percentage of revenues decreased primarily due to an increase in lower margin construction design-build revenue.

Operating expenses decreased by \$3.5 million, or 37%, to \$6.0 million for the three months ended September 30, 2023, compared to \$9.5 million for the three months ended September 30, 2022. This overall decrease in operating expenses was the result of the net effects of the following:

- a \$0.8 million decrease in general and administrative operating expenses due to the offsetting effects of (i) decreases in salary and personnel related costs, (ii) increased legal expenses and (iii) implementation of an incentive retention plan in 2023 that, at its inception, was expected to result in total expense of \$1.3 million in 2023 (\$0.5 million in the first quarter, \$0.2 million in the second quarter, \$0.3 million in the third quarter and \$0.3 million in the fourth quarter);
- a \$0.6 million increase in stock-based compensation expense, due to the three months ended September 30, 2022 expense including a reduction for unvested stock grants for employees who were no longer employed by the Company; and

- a \$3.3 million decrease in a one-time business development expense related to satisfying a lighting issue encountered by a major customer.

Non-operating expense was \$0.3 million for the three months ended September 30, 2023, compared to non-operating expense of \$1.8 million for the three months ended September 30, 2022, a change of \$1.5 million. This change was primarily due to a \$1.7 million impairment loss recorded in the three months ended September 30, 2022.

As a result of the above, we incurred a net loss of \$3.4 million for the three months ended September 30, 2023, or a net loss per share of \$0.29, compared to a net loss of \$8.7 million for the three months ended September 30, 2022, or a net loss per share of \$0.81.

Comparison of Results of Operations for the nine months ended September 30, 2023 and 2022

During the nine months ended September 30, 2023, we generated revenues of \$56.5 million compared to revenues of \$49.7 million during the nine months ended September 30, 2022, an increase of \$6.8 million, or 14%. This increase in revenues is the net result of the following changes in individual revenue components:

- Equipment systems revenue decreased \$20.4 million due to negative market conditions in the CEA sector and a reduction in capital equipment spending by customers;
- Services revenue decreased \$0.1 million which was the net result of a decrease in our existing business due to negative market conditions in the CEA sector offset by increased revenues in the commercial sectors resulting from our expanded business development efforts outside of the CEA market;
- Construction design-build revenue increased \$27.8 million, due to significant organic growth of our construction design-build revenue in addition to the Emerald acquisition being included in our operating results for nine months in 2023 and only five months in 2022; and
- Other revenues decreased \$0.4 million.

During the nine months ended September 30, 2023, cost of revenues was \$48.0 million compared to \$38.7 million during the nine months ended September 30, 2022, an increase of \$9.3 million, or 24%. This increase is directly attributable to the change in individual revenue components driven by a decrease in higher margin equipment systems revenue as well as an increase in lower margin construction design-build revenue.

Gross profit was \$8.6 million (15% of revenues) during the nine months ended September 30, 2023, compared to \$11.0 million (22% of revenue) during the nine months ended September 30, 2022. The overall gross profit as a percentage of revenues decreased primarily due to an increase in lower margin construction design-build revenue as well as a decrease in higher margin equipment systems revenue. The decrease in services gross profit for the nine months ended September 30, 2023 as compared to the nine months ended September 30, 2022 is primarily attributable to better time tracking on service projects due to system upgrades implemented in the first quarter of 2023.

Operating expenses decreased by \$0.1 million, or 0%, to \$20.6 million for the nine months ended September 30, 2023, compared to \$20.7 million for the nine months ended September 30, 2022. This overall decrease in operating expenses was the result of the net effects of the following:

- a \$3.2 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 that, at its inception, was expected to result in total expense of \$1.3 million in 2023 (\$0.5 million in the first quarter, \$0.2 million in the second quarter, \$0.3 million in the third quarter and \$0.3 million in the fourth quarter); and
- a \$3.3 million decrease in a one-time business development expense related to satisfying a lighting issue encountered by a major customer.

Non-operating expense was \$2.1 million for the nine months ended September 30, 2023, compared to non-operating expense of \$1.7 million for the nine months ended September 30, 2022, an increase of \$0.4 million.

As a result of the above, we incurred a net loss of \$14.0 million for the nine months ended September 30, 2023, or a net loss per share of \$1.29, compared to a net loss of \$11.1 million for the nine months ended September 30, 2022, or a net loss per share of \$1.05.

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, foreign exchange gains and 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 September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss (GAAP)	\$ (3,367,788)	\$ (8,660,783)	\$ (13,955,770)	\$ (11,096,304)
Interest expense	39,928	7,088	158,134	22,270
Interest income	(19,461)	(94,200)	(167,652)	(221,329)
Federal and state income tax (benefit) expense	(48,383)	(73,654)	(167,481)	(258,166)
Depreciation and amortization	372,969	526,750	1,201,201	1,116,585
EBITDA (non-GAAP)	(3,022,735)	(8,294,799)	(12,931,568)	(10,436,944)
Non-recurring legal fees	284,641	205,486	769,252	276,246
Contingent consideration - change in fair value	—	—	160,232	—
Contingent consideration - DVO acquisition	78,181	—	204,878	—
One time business development expenses	—	3,299,864	—	3,299,864
Reduction in force costs	31,987	—	334,540	—
One-time employee expenses	—	670,095	—	787,691
Impairment loss	258,492	1,710,358	258,492	1,710,358
Loss on settlement	—	—	1,500,000	—
Retention incentive	300,000	—	942,000	—
Stock-based compensation	722,647	96,767	1,824,835	1,860,767
Transaction costs	29,141	39,182	91,079	258,111
Adjusted EBITDA (non-GAAP)	\$ (1,317,646)	\$ (2,273,047)	\$ (6,846,260)	\$ (2,243,907)

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) Services; and (iii) Construction design-build. We define backlog for Equipment Systems and Services as signed contracts, with Equipment Systems contracts generally requiring 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 September 30, 2023, and December 31, 2022, is reflected in the following tables:

	September 30, 2023			
	CEA	Commercial	Total	Relative Percentage
	(in millions)			
Equipment systems	\$ 2	\$ —	\$ 2	2 %
Services	1	4	5	6 %
Construction design-build ⁽¹⁾	53	24	77	92 %
Total backlog	<u>\$ 56</u>	<u>\$ 28</u>	<u>\$ 84</u>	100 %
Relative percentage	67 %	33 %	100 %	

Note: Percentages may not add up due to rounding.

⁽¹⁾During the second quarter of 2023, a cannabis cultivation project that was actively in production began to face some uncertainty with funding. The Company is in close contact with the client, but felt it prudent to remove this active contract from reported backlog until the client's funding source is solidified. The drop in backlog is predominantly tied to this project.

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

Note: Percentages may not add up due to rounding.

Historically, the majority of our Equipment Systems and Services backlog has been retired and converted into revenue within two quarters. As of September 30, 2023, we expected approximately 50% of our Construction design-build backlog to be completed in the next 12 months. As of September 30, 2023, and December 31, 2022, one customer accounted for 50% 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 September 30, 2023, we had working capital of \$2.8 million, compared to working capital of \$10.3 million as of December 31, 2022, a decrease of \$7.5 million. This decrease in working capital was primarily due to the net effects of the following:

- an increase in accounts payable, accrued expenses, and contract liabilities of \$13.8 million;
- a decrease in cash and prepaid expenses and other assets of \$8.1 million;
- an increase of accounts receivable, net and contract receivables of \$8.3 million; and
- a decrease in customer deposits, contingent consideration, and promissory note of \$6.1 million.

The increase in accounts payable is associated with the increase in costs incurred on construction design-build projects, including costs incurred near the end of the third quarter of 2023. Certain of these contracts were tied to customers where we had previously agreed upon project billing timelines and we were unable to bill for these projects until after September 30, 2023. This resulted in an increase in contract receivables as of September 30, 2023. The decrease in customer deposits and associated decrease in vendor prepayments are tied to the ongoing softness in the CEA sector. We are continually evaluating alternatives to increase our working capital including securing non-dilutive debt financing arrangements.

As of September 30, 2023, we had cash of \$4.8 million, which represented a decrease of \$7.2 million from December 31, 2022, due to the following changes during the nine months ended September 30, 2023:

- Net cash used in operating activities was \$6.5 million. This use of cash is the net effect of the net loss of \$14.0 million, offset by non-cash expenses of \$3.8 million and cash provided by the net changes in operating assets and liabilities of \$3.6 million. See the condensed consolidated statements of cash flows for further details on the non-cash expenses and net changes in operating assets and liabilities;
- Net cash provided by investing activities was \$1.9 million, primarily from the sale of our investment in XS Financial offset by the acquisition of property, plant and equipment. We have no material commitments for capital expenditures as of September 30, 2023; and
- Net cash used in financing activities was \$2.6 million, primarily due to payments made on the promissory note related to the DVO acquisition.

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 three and nine month periods ended September 30, 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 nine months ended September 30, 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 September 30, 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 errors or mistakes. 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 nine months ended September 30, 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. Other than the updates provided below, there were no new material legal proceedings that 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.

As is more fully described in *Item 5 - Other Information*, below, on August 11, 2023, the Company entered into a settlement agreement and mutual release (the "Settlement Agreement") with Crest Ventures, LLC and Andrew Telsey to settle all claims in the litigation filed in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. Pursuant to the Settlement Agreement, the Company made a payment of \$1,500,000 to Crest Ventures, LLC on September 7, 2023. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of \$1,500,000 in accordance with GAAP related to loss contingencies. The case was dismissed with prejudice by the Court on October 5, 2023.

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 "Program"). 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. Approved transactions related to the Program are as follows:

- On May 24, 2021, the Board authorized the Company to repurchase up to \$5.0 million of outstanding shares of the Company's common stock;
- On January 18, 2022, the Board authorized the Company to increase the total repurchase an additional \$2.0 million to a total of \$7.0 million;
- On February 2, 2022, the Board authorized the Company to increase the total repurchase an additional \$1.5 million to a total of \$8.5 million; and
- On September 12, 2022, the Board authorized the Company to increase the total repurchase an additional \$2.0 million to a total of \$10.5 million.

Since inception of the Program, 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 and nine months ended September 30, 2023, there were no purchases by us of our common stock.

Unregistered Shares Issued in Connection with Acquisitions

During the three months ended, September 30, 2023, we issued the following securities as contingent consideration in connection with acquisition agreements that were not registered under the Securities Act:

- 55,232 shares at a price per share of \$1.39 as payment for contingent consideration associated with the 2WR acquisition.

Details surrounding the acquisitions referenced above are 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

As previously disclosed in our annual reports on Form 10-K, the Company was sued on July 29, 2021, by Crest Ventures, LLC (“Crest”) in a breach of contract case in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. The allegations in the action are based on a claim that Crest is entitled to commission compensation on the February 2021 uplisting of our common stock to the Nasdaq Capital Market (the “Nasdaq”). The Plaintiff claims it is entitled to approximately \$4.0 million in commissions, plus interest, legal fees and other damages. The Company joined as a third-party defendant, Andrew Telsey (“Telsey”), for breach of fiduciary duty. The Company also filed counter-claims against Crest and Telsey for declaratory judgment that the finder’s fee agreement was void as a matter of law. The Company contends that Telsey was the Company’s counsel at the time and Telsey claims he was a member of Crest. Initially, the Company had entered into a finder's fee agreement with Crest for a potential merger transaction. Crest and Telsey claim the finder's fee agreement also applies to the introduction to the investment bank that assisted the Company on the uplisting onto the Nasdaq. On Friday, August 11, 2023, the parties entered a settlement agreement (the “Crest Settlement Agreement”) to settle all claims associated with the litigation in exchange for a one-time payment by the Company to Crest of \$1,500,000 by September 10, 2023, which was paid on September 7, 2023. Throughout the case development, the parties had not had any productive settlement negotiations; however, as often occurs as the parties near trial, Crest and Telsey made a settlement offer in mid-July that recently evolved into productive negotiations. Our management had concluded that although unlikely, if Crest were to prevail in their claims, there would be adverse ancillary consequences to our business and that it was prudent to settle to avoid such a possibility, especially considering the time, energy and expense that would be associated with pursuing the case through trial. Further, as part of the Crest Settlement Agreement, Crest and Telsey have admitted that the finder’s fee agreement does not, and did not, apply to the introduction to the investment bank that assisted the Company on the uplisting onto the Nasdaq. The Company has not made any admission of liability or wrongdoing. Upon the payment of all of the settlement proceeds, the Court dismissed the case and claims with prejudice on October 5, 2023. A copy of the Crest Settlement Agreement is filed as Exhibit 10.4 to this report and is incorporated herein by reference. This description of the Crest Settlement Agreement does not purport to be a complete description and is qualified in its entirety by reference to the full text of the Crest Settlement Agreement. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of \$1,500,000 in accordance with GAAP related to loss contingencies.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
3.1	<u>Amended and Restated Certificate of Incorporate of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed June 21, 2023).</u>
3.2	<u>Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.4 to Form 8-K filed October 30, 2020).</u>
3.3	<u>Amendment No. 1 to Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 12, 2021).</u>
3.4	<u>Amendment No. 2 to Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed June 21, 2023).</u>
10.1	<u>1st Amendment to the Company's 2021 Stock Incentive Plan and original text of the Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 21, 2023).</u>
10.2	<u>Amendment No. 1 to restricted stock unit grant notice (incorporated by reference to Exhibit 10.2 to Form 10-Q filed August 14, 2023).</u>
10.3	<u>Amendment No. 1 to form restricted stock unit award agreement (incorporated by reference to Exhibit 10.3 to Form 10-Q filed August 14, 2023).</u>
10.4	<u>Settlement Agreement and Mutual Release by and among urban-gro, Inc., Crest Ventures, LLC, and Andrew Telsey (incorporated by reference Exhibit 10.4 to Form 10-Q filed August 14, 2023).</u>
31.1	<u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2	<u>Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1	<u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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 November 9, 2023.

URBAN-GRO, INC.

By: */s/ Bradley Natrass*

Bradley Natrass

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)

**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 Natrass, 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: November 9, 2023

/s/ Bradley Natrass

Bradley Natrass

Chairperson of the Board of Directors and Chief Executive Officer

**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: November 09, 2023

/s/ Richard A. Akright

Richard A. Akright
Chief Financial Officer

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

In connection with this quarterly report of urban-gro, Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2023, as filed with the Securities and Exchange Commission on November 9, 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: November 09, 2023

/s/ Bradley Natrass

Bradley Natrass
Chairperson of the Board of Directors and Chief Executive Officer

Dated: November 09, 2023

/s/ Richard A. Akright

Richard A. Akright
Chief Financial Officer