

**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, 2020**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number: **000-52898**

urban-gro, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

46-5158469

(I.R.S. Employer Identification No.)

1751 Panorama Point, Unit G

Lafayette, CO

(Address of principal executive offices)

80026

(Zip Code)

(720) 390-3880

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 issued and outstanding as of October 28, 2020 was 28,272,285 shares.

urban gro, Inc.
FORM 10-Q
For the Quarterly Period Ended September 30, 2020

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FORWARD LOOKING STATEMENTS

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

Important factors known to us that could cause such material differences are identified in this Report, including the factors described in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2019. Except as required by applicable law, we undertake no obligation to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any future disclosures we make on related subjects in future reports to the SEC.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash	\$ 213,392	\$ 448,703
Accounts receivable, net	853,585	1,564,969
Inventories	775,064	676,175
Related party receivable	9,772	49,658
Prepayments and other assets	2,734,382	1,278,728
Total current assets	4,586,195	4,018,233
Non-current assets:		
Property and equipment, net	152,577	165,035
Operating lease right of use assets, net	114,017	215,848
Investments	1,710,358	2,020,358
Goodwill	902,067	902,067
Intangible assets, net	84,924	86,151
Total non-current assets	2,963,943	3,389,459
Total assets	\$ 7,550,138	\$ 7,407,692
Liabilities		
Current liabilities:		
Accounts payable	\$ 1,132,020	\$ 3,753,862
Accrued expenses	1,863,096	1,686,841
Related party payable	-	24,972
Deposits	4,087,592	2,915,406
Related party note payable	-	1,000,000
Notes payable	60,000	2,812,709
Revolving Facility	600,000	-
Term Loan, net	1,596,280	-
Operating lease liabilities	80,339	123,395
Total current liabilities	9,419,327	12,317,185
Non-current liabilities:		
Revolving Facility	2,676,493	-
Term Loan, net	88,318	-
Related Party note payable	1,000,000	-
Notes payable	1,020,600	-
Operating lease liabilities	49,347	98,841
Total non-current liabilities	4,834,758	98,841
Total liabilities	14,254,085	12,416,026
Shareholders' deficit:		
Preferred stock, \$0.10 par value; 10,000,000 shares authorized; 0 shares issued and outstanding	-	-
Common stock, \$0.001 par value; 100,000,000 shares authorized; 28,272,285 and 28,209,312 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	28,272	28,209
Additional paid in capital	14,118,289	11,854,083
Accumulated deficit	(20,850,508)	(16,890,626)
Total shareholders' deficit	(6,703,947)	(5,008,334)
Total liabilities and shareholders' deficit	\$ 7,550,138	\$ 7,407,692

See accompanying notes to condensed consolidated financial statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue				
Product sales	\$ 7,910,540	\$ 4,633,974	\$ 15,135,472	\$ 14,469,616
Services	448,882	949,090	1,490,216	2,587,121
Total Revenue	<u>8,359,422</u>	<u>5,583,064</u>	<u>16,625,688</u>	<u>17,056,737</u>
Cost of Revenue	6,654,134	3,650,965	12,613,461	11,529,448
Gross profit	<u>1,705,288</u>	<u>1,932,099</u>	<u>4,012,227</u>	<u>5,527,289</u>
Operating expenses:				
Marketing	42,749	263,948	236,093	914,563
General and administrative	1,411,821	2,383,920	4,874,383	6,892,623
General and administrative - amortization of broker issuing costs and broker warrants associated with convertible debentures	–	167,834	–	167,834
Stock-based compensation	399,258	509,219	1,391,807	1,606,355
Total operating expenses	<u>1,853,828</u>	<u>3,324,921</u>	<u>6,502,283</u>	<u>9,581,375</u>
Loss from operations	<u>(148,540)</u>	<u>(1,392,822)</u>	<u>(2,490,056)</u>	<u>(4,054,086)</u>
Non-operating income (expenses):				
Interest expense	(393,158)	(125,733)	(1,057,501)	(374,850)
Interest expense – amortization of convertible debentures	–	(796,233)	–	(796,233)
Contingent consideration	(155,000)	–	(155,000)	–
Impairment of investment	–	(506,000)	(310,000)	(506,000)
Other income	2,417	11,258	52,675	11,765
Total non-operating income (expenses), net	<u>(545,741)</u>	<u>(1,416,708)</u>	<u>(1,469,826)</u>	<u>(1,665,318)</u>
Income (loss) before income taxes	(694,281)	(2,809,530)	(3,959,882)	(5,719,404)
Income tax expense (benefit)	–	–	–	–
Net income (loss)	<u>\$ (649,281)</u>	<u>\$ (2,809,530)</u>	<u>\$ (3,959,882)</u>	<u>\$ (5,719,404)</u>
Comprehensive income (loss)	<u>\$ (694,281)</u>	<u>\$ (2,809,530)</u>	<u>\$ (3,959,882)</u>	<u>\$ (5,719,404)</u>
Earnings (loss) per share:				
Net loss per share - basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.11)</u>	<u>\$ (0.14)</u>	<u>\$ (0.22)</u>
Weighted average shares used in computation	28,888,194	26,175,098	28,706,905	25,772,134

See accompanying notes to condensed consolidated financial statements

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

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance, June 30, 2020	28,830,978	\$ 28,830	\$ 13,522,833	\$ (20,156,227)	\$ (6,604,564)
Stock-based compensation	-	-	399,258	-	399,258
Stock grant to satisfy accounts payable	9,640	10	9,630	-	9,640
Stock grant program vesting	131,667	132	(132)	-	-
Stock issuance related to acquisition	250,000	250	154,750	-	155,000
Clawback of stock granted	(1,000,000)	(1,000)	1,000	-	-
Stock issued for lease revision	50,000	50	30,950	-	31,000
Net income (loss) for period ended September 30, 2020	-	-	-	(694,281)	(694,281)
Balance, September 30, 2020	28,272,285	\$ 28,272	\$ 14,118,289	\$ (20,850,508)	\$ (6,703,947)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance, June 30, 2019	25,820,633	\$ 25,821	\$ 8,438,943	\$ (11,449,927)	\$ (2,985,163)
Stock-based compensation	-	-	509,219	-	509,219
Stock options issued for loan term revisions	-	-	20,002	-	20,002
Stock grant program vesting	1,160,833	1,160	(1,160)	-	-
Net income (loss) for period ended September 30, 2019	-	-	-	(2,809,530)	(2,809,530)
Balance, September 30, 2019	26,981,466	\$ 26,981	\$ 8,967,004	\$ (14,259,457)	\$ (5,265,472)

See accompanying notes to condensed consolidated financial statements

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

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance, December 31, 2019	28,209,312	\$ 28,209	\$ 11,854,083	\$ (16,890,626)	\$ (5,008,334)
Stock-based compensation	–	–	1,391,807	–	1,391,807
Stock grant to satisfy accounts payable	9,640	10	9,630	–	9,640
Stock issuance related to loan term revisions	100,000	100	99,900	–	100,000
Stock grant program vesting	253,333	253	(253)	–	–
Clawback of stock granted	(1,100,000)	(1,100)	1,100	–	–
Stock issuance related to debt	500,000	500	499,500	–	500,000
Stock issuance related to acquisition	250,000	250	154,750	–	155,000
Warrant issuance related to debt	–	–	76,822	–	76,822
Stock issued for lease revision	50,000	50	30,950	–	31,000
Net income (loss) for period ended September 30, 2020	–	–	–	(3,959,882)	(3,959,882)
Balance, September 30, 2020	28,272,285	\$ 28,272	\$ 14,118,289	\$ (20,850,508)	\$ (6,703,947)

	Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Shareholders' Deficit
	Shares	Amount			
Balance, December 31, 2018	25,229,833	\$ 25,230	\$ 4,688,272	\$ (8,540,053)	\$ (3,826,551)
Stock-based compensation	–	–	1,606,355	–	1,606,355
Stock options issued for loan term revisions	–	–	37,830	–	37,830
Stock grants issued for loan term revisions	10,000	10	24,090	–	24,100
Stock grant program vesting	1,241,633	1,241	(1,241)	–	–
Stock issuance related to acquisition	500,000	500	999,500	–	1,000,000
Warrant issuance related to convertible debentures	–	–	614,041	–	614,041
Equity value of exercise price associated with convertible debentures	–	–	719,479	–	719,479
Broker warrants associated with issuance of convertible debentures	–	–	278,678	–	278,678
Net income (loss) for period ended September 30, 2019	–	–	–	(5,719,404)	(5,719,404)
Balance, September 30, 2019	26,981,466	\$ 26,981	\$ 8,967,004	\$ (14,259,547)	\$ (5,265,472)

See accompanying notes to condensed consolidated financial statements

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

	Nine Months Ended September 30,	
	2020	2019
Cash Flows from Operating Activities		
Net income (loss)	\$ (3,959,882)	\$ (5,719,404)
Adjustments to reconcile net income (loss) from operations:		
Depreciation and amortization	181,750	193,956
Amortization of deferred financing costs	368,661	-
Amortization of convertible debenture components	-	810,166
Stock-based compensation expense	1,391,807	1,606,355
Contingent consideration expense	155,000	-
Impairment of investment	310,000	506,000
Gain on disposal of assets	3,468	(9,572)
Inventory write-offs	72,258	57,352
Bad debt expense	43,849	12,252
Changes in operating assets and liabilities (excluding effects of acquisitions):		
Accounts receivable	658,706	(899,859)
Inventories	(171,147)	142,745
Prepayments and other assets	(784,210)	123,376
Accounts payable and accrued expenses	(2,470,559)	2,164,412
Deposits	1,172,186	925,922
Net Cash Used In Operating Activities	(3,028,113)	(86,299)
Cash Flows from Investing Activities		
Purchase of investment	-	(572,250)
Purchase of intangible assets	-	(25,000)
Purchases of property and equipment	(122,817)	(387,160)
Proceeds from sale of assets	-	40,500
Cash acquired in acquisition	-	49,742
Net Cash Used In Investing Activities	(122,817)	(894,168)
Cash Flows from Financing Activities		
Proceeds from issuance of Revolving Facility	2,207,432	-
Proceeds from issuance of Term Loan	2,000,000	-
Proceeds from Revolving Facility advances	1,069,061	-
Issuance of convertible debentures	-	2,565,000
Proceeds from notes payable	1,020,600	970,000
Debt financing costs	(638,046)	-
Repayment of notes payable	(2,743,428)	(227,749)
Net Cash Provided by Financing Activities	2,915,619	3,307,251
Net Increase (Decrease) in Cash	(235,311)	2,326,784
Cash at Beginning of Period	448,703	1,178,852
Cash at End of Period	\$ 213,392	\$ 3,505,636
Supplemental Cash Flow Information:		
Interest Paid	\$ 670,165	\$ 291,441
Income Taxes Paid	\$ -	\$ -
Supplemental disclosure of non-cash investing and financing activities:		
Operating lease right of use asset set-up effective January 1, 2019	\$ -	\$ 326,095
Debt financing costs booked in equity	\$ 676,822	\$ -
Stock issued for acquisitions	\$ 155,000	\$ 1,020,003

See Note 1 regarding the acquisition of Impact Engineering, Inc.

See accompanying notes to condensed consolidated financial statements

urban-gro, Inc.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

NOTE 1 – ORGANIZATION AND ACQUISITIONS, LIQUIDITY AND GOING CONCERN

Organization and Acquisitions

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

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

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

Since commencing business in March 2014, we have introduced new equipment solutions, products and services to the CEA market, expanded our ongoing operations across North America, and most recently, we have entered into several engagements in Europe. In June 2018, the Company formed urban-gro Canada Technologies, Inc. as a wholly owned Canadian subsidiary, which it utilizes for its Canadian sales operations.

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

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

Under the terms of the agreement to acquire Impact, the Company was required to issue additional shares of Common Stock to the former Impact owner if the average closing price per share of the Company’s Common Stock was less than or equal to \$2.00 per share for the 30-day period beginning on the date that was 150 days after the initial date of the listing of the Company’s Common Stock on a national securities exchange or quotation on the OTCQB or OTCQX (the “Valuation Period”). The Company’s Common Stock price was lower than \$2.00 per share during the Valuation Period and the Company was required to issue additional shares of the Company’s Common Stock to the former Impact owner. In September 2020, however, the Company and the former Impact owner agreed to satisfy this provision of the agreement by the Company issuing 250,000 additional shares of Common Stock to the former Impact owner. The Company valued the issuance of these additional 250,000 shares at \$0.62 per share of Common Stock based on the market price of our shares on the date of the agreement and recorded the additional issuance of shares as contingent consideration in the statements of operations and comprehensive income (loss).

Liquidity and Going Concern

Since inception, the Company has incurred significant operating losses and has funded its operations primarily through the issuance of equity securities, debt, and operating revenue. As of September 30, 2020, the Company had an accumulated deficit of \$20,850,508, a working capital deficit of \$4,833,132, and negative stockholders’ equity of \$6,703,947. These facts and conditions raise substantial doubt about the Company’s ability to continue as a going concern, within one year after the date that these financial statements are issued. The Company continually evaluates opportunities to raise equity and debt financing and has also sought to implement cost reduction and revenue enhancing measures to help achieve profitability and continue operations. There can, however, be no assurances that the Company will be able to raise equity or debt financing in sufficient amounts, when and if needed, on acceptable terms or at all, nor can there be any assurances that the Company will be able to implement cost reduction and revenue enhancing measures that will enable the Company to achieve profitable operations going forward. The accompanying financial statements have been prepared on a going concern basis.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Condensed Consolidated Financial Statements

The Company has prepared the accompanying condensed consolidated financial statements pursuant to the rules and regulations of the SEC for condensed financial reporting. The condensed consolidated financial statements are unaudited and, in the Company's opinion, include all adjustments, consisting of normal recurring adjustments and accruals necessary for a fair presentation of the Company's condensed consolidated balance sheets, condensed consolidated statements of operations and comprehensive income (loss), condensed consolidated statements of shareholders' deficit and condensed consolidated statements of cash flows for the periods presented. The results reported in these condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("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, 2019.

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 2019 Form 10-K. During the nine months ended September 30, 2020, there were no material changes made to the Company's significant accounting policies.

Use of Estimates

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

Reclassification

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

Recently Issued Accounting Pronouncements

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

NOTE 3 – RELATED PARTY TRANSACTIONS

The Company previously purchased certain cultivation products from Bravo Lighting, LLC (d/b/a Bravo Enterprises) (“Bravo”) and Enviro-Glo, LLC (“Enviro-Glo”), manufacturers and distributors of commercial building lighting and other product solutions with common control by the Company’s two major shareholders, Bradley Natrass and Octavio Gutierrez. Purchases from Bravo and Enviro-Glo totaled \$0 and \$43,912 for the nine months ended September 30, 2020 and 2019, respectively, and \$0 and \$7,442 for the three months ended September 30, 2020 and 2019, respectively. There were no outstanding receivables from Bravo and Enviro-Glo as of September 30, 2020 and December 31, 2019. Net outstanding payables incurred for purchases of inventory and other services to Bravo and Enviro-Glo as of September 30, 2020 and December 31, 2019 were \$0 and \$8,570, respectively.

The Company has made payments to Cloud 9 Support, LLC (“Cloud 9”), a company owned by James Lowe, a director, shareholder, and debt holder. Payments to Cloud 9 were \$0 and \$75,617 during the nine months ended September 30, 2020 and 2019, respectively, and \$0 and \$24,368 during the three months ended September 30, 2020 and 2019, respectively. Cloud 9 also purchases materials from the Company. Total sales to Cloud 9 from the Company were \$359,562 and \$229,688 during the nine months ended September 30, 2020 and 2019, respectively, and \$112,405 and \$103,088 during the three months ended September 30, 2020 and 2019, respectively. Outstanding receivables from Cloud 9 as of September 30, 2020 and December 31, 2019 totaled \$9,772 and \$49,659, respectively. Net outstanding payables to Cloud 9 as of September 30, 2020 and December 31, 2019 were \$0 and \$16,402, respectively.

In October 2018, the Company received a \$1,000,000, unsecured, interest only, promissory note (the “Promissory Note”) from Cloud 9. The Promissory Note was originally due April 30, 2019. The Promissory Note is personally guaranteed by the Company’s largest shareholders, Bradley Natrass, who is the Company’s Chairman and Chief Executive Officer, and Octavio Gutierrez, a former officer and director of the Company. The Promissory Note includes additional consideration of 30,000 options at an exercise price of \$1.20 per share. Under the initial terms of the Promissory Note, the interest rate was 12.0% per year with interest payable monthly. In May 2019, the due date of the Promissory Note was extended to December 31, 2019 and the interest rate was decreased to 9.0% per year payable monthly. In connection with the execution of the Credit Agreement (see Note 9 – Debt) on February 21, 2020, the Company entered into an agreement to amend the Promissory Note (the “Amending Agreement”). Pursuant to the Amending Agreement, Cloud 9 agreed to extend the maturity date of the Promissory Note from December 31, 2019 to the date which is the earlier of 60 days following the date: (a) on which demand for repayment is made by the Lender under the Credit Agreement; or (b) which is the maturity date of the Credit Agreement. As part of the Amending Agreement, the Company issued 100,000 shares of Common Stock to James Lowe as designee of Cloud 9.

NOTE 4 – PREPAYMENTS AND OTHER ASSETS

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

	September 30, 2020	December 31, 2019
Vendor prepayments	\$ 1,828,531	\$ 1,070,788
Prepaid services and fees	268,655	187,912
Deferred financing asset (See Note 9 - Debt)	630,805	–
Other assets	6,391	20,028
Prepayments and other assets	<u>\$ 2,734,382</u>	<u>\$ 1,278,728</u>

NOTE 5 – INVESTMENTS

The components of investments are summarized as follows:

	September 30, 2020	December 31, 2019
Investment in Edyza	\$ 1,710,358	\$ 1,710,358
Investment in TGH	–	310,000
	<u>\$ 1,710,358</u>	<u>\$ 2,020,358</u>

On January 24, 2020, the Company entered into a Membership Interest Redemption Agreement (the “Redemption Agreement”) with Total Grow Holdings LLC (d/b/a Total Grow Control, LLC) (“TGH”), whereby the Company agreed to sell the Company’s 24.4% membership interests in TGH back to TGH for total consideration of \$370,000. As a result of TGH’s failure to perform its obligations under the Redemption Agreement, the Company initiated a lawsuit against TGH seeking damages (the “Lawsuit”), and subsequently fully impaired the remaining investment in TGH during the three months ended June 30, 2020.

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

On September 24, 2020, in connection with the Settlement Agreement, the Company also entered into an agreement (the “Pullar Agreement”) by and between the Company and George R. Pullar, a former director of the Company and the Company’s former chief financial officer and the current chief financial officer of TGH. Pursuant to the Pullar Agreement, in exchange for Mr. Pullar relinquishing all right, title and interest in and to 1,000,000 shares of the Company’s common stock, the Company agreed to (i) execute the Settlement Agreement, (ii) transfer, sell and assign to Mr. Pullar the Company’s 24.4% membership interest in TGH pursuant to the Settlement Agreement and (iii) issue Mr. Pullar a fully vested warrant, to purchase 400,000 shares of Common Stock at an exercise price of \$1.00 per share which expires five years from the date of issuance. The Pullar Agreement also provides for a mutual release between the Company and Mr. Pullar.

NOTE 6 – GOODWILL

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

NOTE 7 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

	September 30, 2020	December 31, 2019
Accrued operating expenses	\$ 798,752	\$ 854,056
Accrued wages and related expenses	402,710	487,327
Accrued interest expense	44,635	–
Accrued sales tax payable	616,999	345,458
	<u>\$ 1,863,096</u>	<u>\$ 1,686,841</u>

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

NOTE 8 – NOTES PAYABLE

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

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Unsecured, interest only, note payable with Chris Parkes originally due December 31, 2018. Initial interest payments due monthly at an annual rate of 20.4%. Note payable revised in December 2018 extending the maturity date to March 31, 2019. During August 2019, the maturity date was extended to March 31, 2020 and the interest rate was decreased to an annual rate of 9%. In consideration for extending the due date of the note and reducing the interest rate, the Company issued the holder 3,000 shares of Common Stock. Beginning in April 2020, the Company is making monthly principal payments in the amount of \$10,000.	\$ 20,000	\$ 80,000
Unsecured, interest only, note payable with David Parkes originally due December 31, 2018. Initial interest payments due monthly at an annual rate of 18.0%. Note payable revised in December 2018 extending the maturity date to March 31, 2019. During August 2019, the maturity date was extended to March 31, 2020 and the interest rate was decreased to an annual rate of 9%. In consideration for extending the due date of the note and reducing the interest rate, the Company issued the holder 3,000 shares of Common Stock. Beginning in April 2020, the Company is making monthly principal payments in the amount of \$10,000.	40,000	100,000
Note payable with Hydrofarm Holdings Group, Inc. (“Hydrofarm”), secured by all currently existing and future assets. Interest accrues at 8.0% per year and is paid quarterly. The note matures on the earlier of: (a) 90 days’ notice from Hydrofarm; (b) acceleration of the note payable due to the Company being in default; or (c) December 2023. The note was repaid in full on February 27, 2020.	–	2,000,000
Secured agreement to sell future receivables to GCF Resources, LLC, net of \$30,000 in closing fees. The agreement requires 32 weekly payments of \$42,190 totaling \$1,350,000. The agreement matured on May 7, 2020 but is repayable prior to maturity for less than the \$1,350,000 in total payments. The note was repaid in full on February 27, 2020.	–	632,709
Paycheck Protection Program (“PPP”) loan entered into on April 16, 2020. Interest rate of 1.0% per annum. Payments of principal and interest are deferred until August 1, 2021 (the “Deferral Period”). The PPP loan may be forgiven in part or fully depending on the Company meeting certain PPP loan forgiveness guidelines. The Company has not yet determined if any of the PPP loan is subject to forgiveness and has therefore continued to present the entire PPP loan as an obligation on its financial statements. Any unforgiven portion of the PPP loan is payable over a two-year term, with payments deferred during the Deferral Period. The Company may prepay the unforgiven loan balance at any time without payment of any premium.	1,020,600	–
Total	1,080,600	2,812,709
Less current maturities	(60,000)	(2,812,709)
Long Term	<u>\$ 1,020,600</u>	<u>\$ –</u>

NOTE 9 – DEBT

The Company's borrowings as of September 30, 2020 and December 31, 2019 consisted of the following:

	September 30, 2020	December 31, 2019
Revolving Facility	\$ 3,276,493	\$ –
Term Loan, net of \$315,402 unamortized debt issuance costs	1,684,598	–
Total	4,961,091	–
Less current debt due within one year	(2,196,280)	–
Total long-term debt	\$ 2,764,811	\$ –

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

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

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

On September 4, 2020, the Company executed an amendment to the Credit Agreement (the “First Amendment”) whereas the Facilities described above are now due on December 31, 2021 (the “Revised Maturity Date”). The First Amendment also increased the rate at which the Facilities will bear interest to the annual rate established and designated by the Bank of Nova Scotia as the prime rate, plus 12% per annum (14.5% as of September 30, 2020).

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

The Company incurred \$1,314,868 of debt issuance costs in connection with these Facilities, of which \$676,822 was non-cash in the form of Common Stock and warrant issuances. The Company estimated the fair value of these warrants at the respective balance sheet dates using the Black-Scholes option pricing based on the market value of the underlying Common Stock at the valuation measurement date of \$1.00, the remaining contractual terms of the warrants of 5 years, risk free interest rate of 1.14% an expected volatility of the price of the underlying Common Stock of 100%. The Company recorded the debt issuance costs as either a deferred financing asset or a direct reduction of the loan obligation based on the pro-rata value of the Revolving Facility and Term Loan, respectively, on the closing date. The debt issuance costs are amortized as interest expense over the life of the Facilities, until the Revised Maturity Date. As of September 30, 2020, there were \$630,805 and \$315,402 of unamortized debt issuance costs remaining related to the Revolving Facility and Term Loan, respectively.

The Company recorded interest expense of \$1,057,501 in the nine months ended September 30, 2020, of which \$368,661 related to the amortization of debt issuance costs on the Credit Agreement. Excluding interest expense related to the amortization of convertible debentures of \$796,233, the Company recorded interest expense of \$374,850 in the nine months ended September 30, 2019. The Company recorded interest expense of \$393,158 in the three months ended September 30, 2020, of which \$164,941 related to the amortization of debt issuance costs on the Credit Agreement. Excluding interest expense related to the amortization of convertible debentures of \$796,233, the Company recorded interest expense of \$125,733 in the three months ended September 30, 2019.

NOTE 10 – UNIT OFFERING

Effective January 9, 2019, the Company executed a letter agreement with an exclusive placement agent in connection with a private placement offering. Beginning in March 2019, the placement agent initiated an offering (the “Offering”) of up to \$6,000,000 from the sale of Units, with each Unit consisting of a \$1,000 Convertible Debenture (the “Debentures” or a “Debenture”) and Common Stock Purchase Warrants (the “Warrants”) exercisable to purchase 207.46 shares of Common Stock at \$3.00 per share for a period of two years from the purchase date. The Debentures were due May 31, 2021 and bore interest at 8%, compounded annually, with interest due at maturity. The Debentures, plus any accrued but unpaid interest, were to automatically convert for no additional consideration into Common Shares at a conversion price of \$2.41 per share upon the occurrence of a liquidity event. A liquidity event was defined as: (a) the date on which the Company’s Common Stock is listed for trading on a recognized stock exchange in either Canada or the United States; and (b) securities issued pursuant to the Offering, including the Common Stock underlying both the conversion right included in the Debentures and underlying the Warrants, have been duly qualified by a registration statement in the United States, allowing the securities to be freely tradeable pursuant to the U.S. securities laws, or a prospectus in Canada. The Company filed a registration statement with the SEC on September 17, 2019, to register the securities in connection with the Offering. That registration statement was declared effective October 16, 2019, triggering the liquidity event indicated above and the \$2,565,000 in Debentures plus \$92,037 in accrued interest were converted into 1,102,513 Common Shares at \$2.41 per share. The Warrants contain a mandatory exercise provision if the weighted average share price of the Company’s Common Stock exceeds \$5.00 per share for a period of five consecutive days. As of September 30, 2020, no Warrants had been exercised.

NOTE 11 – RISKS AND UNCERTAINTIES

Concentration Risk

During the nine months ended September 30, 2020 and 2019, one client represented 26% and 15% of total revenue, respectively. During the three months ended September 30, 2020 and 2019, one client represented 51% and 17% of total revenue, respectively. At September 30, 2020 one client represented 26% of total outstanding receivables. At December 31, 2019, one client represented 15% and another represented 11% of total outstanding accounts receivables.

During the nine months ended September 30, 2020, 27% of the Company’s total purchases were from one vendor. During the nine months ended September 30, 2019, 15% of the Company’s total purchases were from one vendor. During the three months ended September 30, 2020, 48% of the Company’s total purchases were from one vendor. During the three months ended September 30, 2019, 20% of the Company’s total purchases were from one vendor.

Coronavirus Pandemic

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

As a result of these events, we assessed our near-term operations, working capital, finances and capital formation opportunities, and implemented, in late March 2020, a downsizing of our operations and workforce to preserve cash resources and focus our operations on client-centric sales and project management activities. The duration and likelihood of success of this workforce reduction are uncertain; however, we have since rehired several employees who were impacted by the downsizing effort. If this downsizing effort does not meet our expectations, or additional capital is not available, we may not be able to continue our operations. The pandemic and its effects resulted in temporary delays in our projects, however, work on all such projects has resumed. Other factors that will affect our ability to continue operations include the market demand for our products and services, our ability to service the needs of our clients and prospects with a reduced workforce, potential contract cancellations, project scope reductions and project delays, our ability to fulfill our current backlog, management of our working capital, the availability of cash to fund our operations, and the continuation of normal payment terms and conditions for purchase of our products. In light of these extenuating circumstances, there is no assurance that we will be successful in growing and maintaining our business with our clients. If our clients or prospects are unable to obtain project financing and we are unable to increase revenues, or otherwise generate cash flows from operations, we will not be able to successfully execute on the various strategies and initiatives we have set forth in this Report to grow our business.

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

NOTE 12 – STOCK-BASED COMPENSATION

Stock-based compensation expense for the nine months ended September 30, 2020 and 2019 was \$1,391,807 and \$1,606,355, respectively, based on the vesting schedule of the stock grants and options. Stock based compensation expense for the three months ended September 30, 2020 and 2019 was \$399,258 and \$509,219, respectively, based on the vesting schedule of the stock grants and options. No cash flow effects are anticipated for stock grants.

In January 2017, the Company began granting Common Stock to attract, retain, and reward employees. In January 2018, the Company implemented an equity incentive plan to reward and attract employees and directors and compensate vendors for services when applicable. In May 2019, the Company adopted a new equity incentive plan, authorizing an aggregate of 3,500,000 shares of Common Stock for issuance thereunder. This equity incentive plan was approved by the Company's shareholders on May 23, 2019.

Stock grants under the equity incentive plans are valued at the price of the stock on the date of grant. The fair value of stock options granted under the equity incentive plans is calculated using the Black-Scholes pricing model based on the estimated market value of the underlying stock at the valuation measurement date, the remaining contractual term of the stock options, risk-free interest rate, and expected volatility of the underlying Common Stock. There is a moderate degree of subjectivity involved when estimating the value of stock options with the Black-Scholes option pricing model as the assumptions used are moderately judgmental. Stock grants and stock options are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. Stock grants and stock options typically require a 1 to 3 year period of continued employment or service performance before the stock grant or stock option vests.

Stock Grants:

The following table shows stock grant activity for the nine months ended September 30, 2020:

Grants outstanding as of December 31, 2019	412,501
Grants awarded	794,166
Forfeiture/Cancelled	(200,000)
Grants vested	(253,333)
Grants outstanding as of September 30, 2020	<u>753,334</u>

As of September 30, 2020, the Company has \$393,215 in unrecognized share-based compensation expense related to these stock grants.

Stock Options:

The following table shows stock option activity for the nine months ended September 30, 2020:

	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
Stock options outstanding as of December 31, 2019	1,702,167	9.21	\$ 1.21
Issued	2,425,000	9.49	\$ 1.00
Exercised	—	—	—
Expired	(297,501)	9.19	\$ 1.21
Stock options outstanding at September 30, 2020	<u>3,829,666</u>	9.35	\$ 1.05
Stock options exercisable at September 30, 2020	<u>1,437,578</u>	8.88	\$ 1.12

As of September 30, 2020, the Company has \$1,919,523 in unrecognized share-based compensation expense related to these stock options.

NOTE 13 – SHAREHOLDERS' EQUITY

In March 2020, an executive left the Company and returned 100,000 common shares as part of the related separation agreement. The Company retired the shares and reduced its issued and outstanding stock by 100,000 shares.

In September 2020, a former executive who had the right to receive 1,000,000 shares of Common Stock per the terms of his separation agreement that was reached in September 2019, entered into an agreement with the Company to exchange the right to receive those 1,000,000 shares of Common Stock for the Company's ownership interest in TGH (see Note 5 – Investments) and a warrant to purchase 400,000 shares of the Company's Common Stock at \$1.00 per share. The Company retired the shares and reduced its issued and outstanding stock by 1,000,000 shares.

NOTE 14 – WARRANTS

Warrants are immediately exercisable upon issuance. The following table shows warrant activity for the nine months ended September 30, 2020.

	<u>Number of shares</u>	<u>Weighted Average Exercise Price</u>
Warrants outstanding as of December 31, 2019	692,034	\$ 2.88
Issued in conjunction with debt	124,481	\$ 2.41
Issued in conjunction with agreement with former executive (see Note 13 – Shareholders' Equity)	400,000	\$ 1.00
Warrants outstanding as of September 30, 2020	<u>1,216,515</u>	<u>\$ 2.21</u>
Warrants exercisable as of September 30, 2020	<u>1,216,515</u>	<u>\$ 2.21</u>

The weighted-average life of the warrants is 2.5 years. The aggregate intrinsic value of the warrants outstanding and exercisable at September 30, 2020 is \$0.

NOTE 15 – SUBSEQUENT EVENTS

Management has assessed and determined that no significant subsequent events are to be disclosed according to ASC 855.

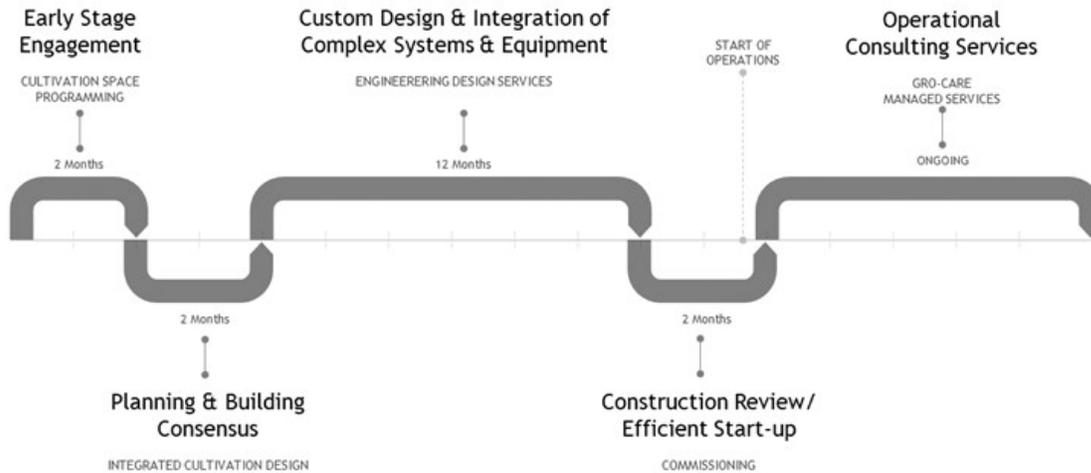
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview and History

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

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



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

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

The majority of our clients are commercial CEA cultivators. We believe one of the key points of our differentiation that our clients value is the depth of experience of our employees and our Company. We currently employ 39 individuals. Approximately two-thirds of our employees are considered experts in their areas of focus, and our team includes Engineers (Mechanical, Electrical, Plumbing, Controls, and Agricultural), Professional Engineers, and individuals with Masters Degrees in Plant Science, Horticulture, and Business Administration. As a company, we have worked on more than 300 indoor CEA facilities, and believe that the experience of our team and Company provide clients with the confidence that we will proactively keep them from making common costly mistakes during the build out and operational stages. Our expertise translates into clients saving time, money, and resources, and provides them ongoing access to expertise that they can leverage without having to add headcount to their own operations. We provide this experience in addition to offering a platform of the highest quality equipment systems that can be integrated holistically into our clients’ facilities.

RECENT DEVELOPMENTS

COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, COVID-19, was reported to have surfaced in Wuhan, China. In January 2020, this coronavirus spread to other countries, including the United States, and efforts to contain the spread of this coronavirus intensified. In March 2020, the World Health Organization declared the outbreak of the coronavirus a pandemic. We are a business that supplies other essential businesses with support and supplies necessary to operate and we therefore believe we are an essential business allowed to continue operating under the Stay-At-Home Orders that may be issued by many states and cities. However, as discussed below, we have seen a decrease in revenues for the nine months ended September 30, 2020, a portion of which was the result of clients deferring spending due to the impacts of COVID-19. The extent to which the COVID-19 pandemic impacts our results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact. The outbreak and any preventative or protective actions that governments or we may take in respect of COVID-19 may result in a period of business disruption, reduced client business and reduced operations.

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

- In March 2020, we began executing a substantial reduction in discretionary marketing and general & administrative expenses;
- On March 30, 2020, we reduced our headcount by 13 people (27%), from 48 to 35, by terminating ten employees and furloughing three other employees, including one member of our leadership team;
- Effective April 6, 2020, we reduced compensation for almost every remaining employee, including a 20% reduction for the senior members of our leadership team.
- Effective July 27, 2020, the reduced compensation for everyone other than the leadership team was reinstated. Effective September 7, 2020, the reduced compensation for the leadership team was reinstated.
- As of the date of this Report, we have hired back 3 employees and brought back 2 employees off of furlough.

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

Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”)

On March 27, 2020, the CARES Act was enacted. The CARES Act is an approximate \$2 trillion emergency economic stimulus package passed in response to the coronavirus outbreak. The CARES Act, among other things, includes broad sweeping provisions such as direct financial assistance to Americans in the form of one-time payments to individuals; aid to businesses in the form of loans and grants; and efforts to stabilize the U.S. economy and keep Americans employed in general. On April 16, 2020, we received a loan in the amount of \$1,020,600 under the Paycheck Protection Program (“PPP”) of the CARES Act. The PPP provides for loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. On June 5, 2020, the Paycheck Protection Program Flexibility Act of 2020 (the “PPPPFA”) was enacted. The PPPFA extended the covered period of the loans under the PPP from eight weeks to 24 weeks from the origination date of the loan, or December 31, 2020, whichever is earlier. Therefore, the PPP now provides a mechanism for forgiveness of up to the full amount borrowed after 24 weeks as long as the borrower uses the loan proceeds during the 24-week period after the loan origination for eligible purposes, including payroll costs, certain benefits costs, rent and utilities costs or other permitted purposes, and maintains its payroll levels, subject to certain other requirements and limitations. The amount of loan forgiveness is subject to reduction, among other reasons, if the borrower terminates employees or reduces salaries during the 24-week period. The interest rate on the loan is 1.0% per annum. The PPPFA also extended the deferment period for principal and interest payments on PPP loans from six months to ten months. Therefore, the payments of principal and interest under our PPP loan are deferred for ten months from the final day of the loan forgiveness period (the “Deferral Period”). Although the Company believes the PPP loan proceeds were used in accordance with the CARES Act guidance, the Company has not yet determined if any of the PPP loan is subject to forgiveness and has therefore continued to show the entire PPP loan as an obligation on its financial statements. Any unforgiven portion of the PPP loan is payable over the two-year term, with payments deferred during the Deferral Period. The Company may elect to prepay the unforgiven loan at any time without payment of any premium.

Results Of Operations

During the nine months ended September 30, 2020, we generated revenues of \$16.6 million compared to revenues of \$17.1 million during the nine months ended September 30, 2019, a decrease of \$0.5 million, or 3%. Product sales revenue increased \$0.6 million primarily due to an increase in cultivation equipment sales while services revenue decreased \$1.1 million primarily due to a decrease in the average size of the facilities being designed. A portion of the decrease in revenues was the result of clients deferring spending due to the impacts of COVID-19. As a result of the deferred spending, many of the completion dates in our client contracts were extended, but no contracts were lost. We signed 57 new engineering design project contracts in the nine-month period ended September 30, 2020, including six new projects in Europe, and secured our first horticulture commissioning project, an East Coast based lettuce facility.

During the nine months ended September 30, 2020, cost of revenues was \$12.6 million compared to \$11.5 million during the nine months ended September 30, 2019, an increase of \$1.1 million, or 9%. This increase is attributable to an increase in revenue from our lower margin product equipment sales and a reduction in our higher margin services revenue.

Gross profit was \$4.0 million (24% of revenue) during the nine months ended September 30, 2020 compared to \$5.5 million (32% of revenue) during the nine months ended September 30, 2019. Gross profit as a percentage of revenue decreased due to a revenue mix shift in the current period favoring product versus services revenue as noted above.

Operating expenses decreased by \$3.1 million, or 32%, to \$6.5 million for the nine months ended September 30, 2020 compared to \$9.6 million for the nine months ended September 30, 2019. The decrease in operating expenses was comprised of a \$2.0 million reduction in general operating expenses, mainly due to reduced salary and travel expenses, a \$0.7 million reduction of marketing related expenses, and a \$0.2 million reduction in stock-based compensation expense.

Non-operating expenses decreased \$0.2 million to \$1.5 million for the nine months ended September 30, 2020, compared to \$1.7 million for the nine months ended September 30, 2019. Interest expense, excluding \$0.8 million related to the amortization of convertible debentures in the nine months ended September 30, 2019, increased \$0.7 million due to the increase in debt over the comparable periods. For the nine months ended September 30, 2020 and 2019, the Company recognized an impairment loss of \$0.3 million and \$0.5 million, respectively, related to the investment in TGH. The Company also incurred a \$0.2 million expense for contingent consideration from the acquisition of Impact during the nine months ended September 30, 2020.

As a result of the above, we incurred a net loss of \$4.0 million for the nine months ended September 30, 2020, or a loss per share of \$0.14, compared to a net loss of \$5.7 million for the nine months ended September 30, 2019, or a loss per share of \$0.22.

Comparison of Results of Operations for the three months ended September 30, 2020 and 2019

During the three months ended September 30, 2020, we generated revenues of \$8.4 million compared to revenues of \$5.6 million during the three months ended September 30, 2019, an increase of \$2.8 million, or 50%. Product sales revenue increased \$3.3 million primarily due to an increase in cultivation equipment sales while services revenue decreased \$0.5 million primarily due to a decrease in the average size of facilities being designed. We signed 15 new engineering design project contracts in the three-month period ended September 30, 2020.

During the three months ended September 30, 2020, cost of revenues was \$6.7 million compared to \$3.7 million during the three months ended September 30, 2019, an increase of \$3.0 million, or 82%. This increase is attributable to an increase in revenue from our lower margin product equipment sales and a reduction in our higher margin services revenue.

Gross profit was \$1.7 million (20% of revenue) during the three months ended September 30, 2020 compared to \$1.9 million (35% of revenue) during the three months ended September 30, 2019. Gross profit as a percentage of revenue decreased due to a revenue mix shift in the current period favoring product versus services revenue as noted above.

Operating expenses decreased by \$1.4 million, or 42%, to \$1.9 million for the three months ended September 30, 2020 compared to \$3.3 million for the three months ended September 30, 2019. The decrease in operating expenses was comprised of a \$1.0 million reduction in general operating expenses mainly due to reduced salary and travel expenses, a \$0.3 million reduction of marketing related expenses, and a \$0.1 million reduction in stock-based compensation expense.

Non-operating expenses decreased \$0.9 million to \$0.5 million for the three months ended September 30, 2020, compared to \$1.4 million for the three months ended September 30, 2019. Interest expense, excluding \$0.8 million related to the amortization of convertible debentures in the nine months ended September 30, 2019, increased \$0.3 million due to the increase in debt over the comparable period. In the three months ended September 30, 2019 the Company recorded a \$0.5 million impairment loss related to TGH. The Company incurred a \$0.2 million expense for contingent consideration from the acquisition of Impact during the three months ended September 30, 2020.

As a result of the above, we incurred a net loss of \$0.7 million for the three months ended September 30, 2020, or a loss per share of \$0.02, compared to a net loss of \$2.8 million for the three months ended September 30, 2019, or a loss per share of \$0.11.

NON-GAAP FINANCIAL MEASURES

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net Loss	\$ (694,281)	\$ (2,809,530)	\$ (3,959,882)	\$ (5,719,404)
Interest expense	393,158	125,733	1,057,501	374,850
Interest expense – amortization of convertible debentures	–	796,233	–	796,233
G&A – amortization of convertible debentures	–	167,834	–	167,834
Impairment loss	–	506,000	310,000	506,000
Stock-based compensation	399,258	509,219	1,391,807	1,606,355
Contingent consideration – purchase price	155,000	–	155,000	–
Depreciation and amortization	61,339	73,928	181,750	193,956
Adjusted EBITDA	<u>\$ 314,474</u>	<u>\$ (630,583)</u>	<u>\$ (863,824)</u>	<u>\$ (2,074,176)</u>

Adjusted EBITDA for the nine months ended September 30, 2020 was a negative \$0.9 million, compared to a negative \$2.1 million for the nine months ended September 30, 2019, due to the offsetting effects of reduced operating expenses and reduced gross profit. Adjusted EBITDA for the three months ended September 30, 2020 was \$0.3 million compared to a negative \$0.7 million for the three months ended September 30, 2019, due primarily to reduced operating expenses.

There are limitations to using non-GAAP measures such as Adjusted EBITDA. Although we believe that Adjusted EBITDA can make an evaluation of our operating performance more consistent because it removes items that do not reflect our core operations, other companies in our industry may define Adjusted EBITDA differently than we do. As a result, it may be difficult to use Adjusted EBITDA to compare the performance of those companies to our performance. Adjusted EBITDA should not be considered as a measure of the income generated by our business or discretionary cash available to us to invest in the growth of our business.

Liquidity and Capital Resources

As of September 30, 2020, we had cash of \$213,392, which represented a decrease of \$235,311 from December 31, 2019.

Since inception, we have incurred significant operating losses and have funded our operations primarily through issuances of equity securities, debt, and operating revenue. As of September 30, 2020, we had an accumulated deficit of \$20,850,508, a working capital deficit of \$4,833,132, and negative stockholders' equity of \$6,703,947. Our ability to generate sufficient revenues to pay our debt obligations and accounts payable when due remains subject to risks and uncertainties. These risks and uncertainties raise substantial doubt about our ability to continue as a going concern within one year after the date that the condensed consolidated financial statements in connection with this Report are issued. The condensed consolidated financial statements included in this Report have been prepared on a going concern basis and do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might result from the outcome of this uncertainty. Our ability to continue as a going concern is dependent upon, among other things, our ability to generate revenue, control costs and raise capital. Such capital, however, may not be available, if at all, on terms that are acceptable to us.

As described above in Note 9 to the Condensed Consolidated Financial Statements, on February 21, 2020, we entered into the Credit Agreement, providing for a senior secured demand term loan facility in the amount of C\$2.7 million (\$2.0 million) and a demand revolving credit facility of up to C\$5.4 million (\$4.0 million). Our failure to obtain additional debt or equity financing in the future could have a negative impact on our ability to continue as a going concern or to grow and expand our operations, which will have a negative impact on our anticipated results of operations. As of September 30, 2020, we had no availability under the revolving credit facility.

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

If we do not raise enough funds from a financing, or generate sufficient operating cash flow, or if additional expenditures and acquisitions are identified and we cannot use our securities as compensation, we will need additional funding to continue to implement our business plan and to execute our strategic initiatives. Other than the availability pursuant to the Revolving Facility, we do not currently have an agreement with any third party to provide us with such financing and there can be no assurances that we will be able to raise any capital on commercially reasonable terms, or at all. If we require additional capital and are unable to raise the same, it could have a material negative impact on our results of operations.

Net cash used in operating activities was \$3.0 million during the nine months ended September 30, 2020, compared to \$0.1 million used for the nine months ended September 30, 2019. Operating cash has been positively impacted from an increase in client deposits as demand for our services and equipment solutions increased in the nine months ended September 30, 2020. At September 30, 2020, we had \$4.1 million in client deposits related to client orders, which compared favorably to client deposits of \$2.9 million as of December 31, 2019. We require prepayments from clients before any design work is commenced and before any material is ordered from the vendor. These prepayments are booked to the client deposits liability account when received. Our standard policy is to collect the following before action is taken on a client order: 50% deposit; and the remaining 50% payment made prior to shipping. We expect client deposits to be relieved from the deposits account no longer than 12 months for each project. We do not have trade payable terms with most of our vendors and as a result, we are required to prepay a portion or all of the total order. At September 30, 2020, we had \$1.1 million in accounts payable, compared to \$3.8 million at December 31, 2019.

Net cash used in investing activities was \$0.1 million for the nine months September 30, 2020, compared to \$0.9 million during the nine months ended September 30, 2019. Historically, cash has been used to increase our investments in strategic partnerships and to acquire property and equipment. We do not anticipate using significant cash in the future to invest in strategic partnerships. We will continue to have ongoing needs to purchase property and equipment to maintain our operations. We have no material commitments for capital expenditures as of September 30, 2020.

Net cash provided by financing activities was \$2.9 million for the nine months ended September 30, 2020, compared to \$3.3 million during the nine months ended September 30, 2019. Cash provided from financing activities during the nine months ended September 30, 2020 primarily relates to \$5.3 million in proceeds received from the issuance of debt and a \$1.0 million long-term loan, offset by \$2.8 million used in the repayment of notes payable and \$0.6 million in financing fees related to the issuance of debt.

Inflation

Although our operations are influenced by general economic conditions, we do not believe that inflation had a material effect on our results of operations during the nine months ended September 30, 2020.

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 2019 Form 10-K. During the nine months ended September 30, 2020, there were no material changes made to the Company's significant accounting policies.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

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

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

Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of September 30, 2020, at reasonable assurance levels.

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

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

Changes in Internal Control over Financial Reporting – There were no changes in our internal control over financial reporting during our nine months ended September 30, 2020, 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

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

ITEM 1A. RISK FACTORS

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

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.	Description
3.1	Certificate of Incorporation ((incorporated by reference to Current Report on Form 8-K filed on October 30, 2020).
3.2	Bylaws of Registrant (incorporated by reference to Current Report on Form 8-K filed on October 30, 2020).
10.1	First Amendment to Loan Agreement, dated as of September 4, 2020, by and among the Registrant, urban-gro Canada Technologies Inc., Impact Engineering, Inc. and Bridging Finance Inc.
10.2	Agreement, dated as of September 18, 2020, by and between the Registrant and George (Bob) Pullar.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 3, 2020.

URBAN-GRO, INC.

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

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

FIRST AMENDMENT TO LOAN AGREEMENT

THIS AMENDING AGREEMENT (this "**Agreement**") is made as of the 4th day of September, 2020 among urban-gro, Inc. (the "**Borrower**"), urban-gro Canada Technologies Inc. and Impact Engineering, Inc. (together, the "**Guarantors**") and Bridging Finance Inc., as Agent (as defined below) and as lender.

RECITALS:

- A. the Borrower, the Guarantors, Bridging Finance Inc., as agent for the lenders from time to time party thereto (in such capacity, the "**Agent**") and as a lender, entered into a letter agreement dated as of February 21, 2020 (as the same has been, or may in the future be, amended, modified, restated, supplemented or replaced from time to time, the "**Loan Agreement**") which established the Facilities in favour of the Borrower;
- B. the parties hereto have agreed to amend the Loan Agreement on the terms and conditions hereinafter set forth, including, among other things, to remove the demand feature with respect to the Facilities;

NOW THEREFORE, in consideration of the covenants and agreements contained in this Agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties hereto agree as follows:

1. Capitalized Terms. All capitalized terms used in this Agreement that are not defined herein shall have the meanings ascribed thereto in the Loan Agreement.

2. Amendments to Loan Agreement.

(a) The section titled "Facilities" is hereby deleted in its entirety and replaced with the following:

"Facilities: Revolving loan of up to CAN\$5,400,000 (the "**Maximum Revolver Amount**"), based on the lending formula described below (the "**Revolving Facility**") and a term loan in the amount of CAN\$2,700,000 (the "**Term Loan**" with the Revolving Facility and the Term Loan collectively referred to as the "**Facilities**"). The Term Loan shall be due on the Maturity Date (as defined below)."

(b) The section titled "Term" is hereby deleted in its entirety and replaced with the following:

"Term: December 31, 2021 (the "**Maturity Date**")."

(c) The section titled "Interest Rate and Fees" is hereby amended by:

(i) deleting the first paragraph thereof and replacing it with the following:

"Annual rate of Prime plus 12% per annum calculated on the principal amount of the Facilities outstanding, accruing daily, compounded monthly, and payable as set out herein."; and

(ii) adding a new sub-section at the end of such section, as follows:

"Extension Fee: The Borrower shall pay to the Agent a non-refundable extension fee in the amount of C\$121,500, plus applicable taxes. Such fee shall fully earned as of September 4, 2020, and shall be due and payable on the Maturity Date."

- (d) The section titled "Payments" is hereby deleted in its entirety and replaced with the following:
- "Payments:** Interest at the aforesaid rate per annum shall accrue daily and be compounded monthly, and shall be due and payable in arrears by 3:00pm on the first Business Day of each and every month during the Term, and on the Maturity Date. Without limiting the other payment obligations in this Agreement, all then outstanding principal and other Obligations shall be due and payable on the Maturity Date."
- (e) The first paragraph under the section titled "Events of Default" is hereby deleted in its entirety and replaced with the following:
- "Events of Default:** Without limiting any other rights of the Agent and the Lenders under this Agreement, if any one or more of the following events (an "Event of Default") has occurred and is continuing:"
- (f) The section titled "Events of Default" is hereby amended by deleting in its entirety the following sentence:
- "Nothing contained in this section shall limit any right of the Agent under this Agreement to demand payment of the Facilities at any time."
- (g) The following sub-sections are hereby added to the section titled "Covenants":
- (xxxii) on or before January 31, 2021, the Borrower shall prepay US\$1,000,000 against the balance then outstanding under the Term Loan;
 - (xxxiii) beginning on March 1, 2021 and on the first Business Day of each and every month during the Term, the Borrower shall prepay US\$100,000 of principal toward the balance then outstanding under the Term Loan (for greater certainty, such monthly prepayment of principal is in addition to the Borrower's monthly interest payment obligation with respect to the Term Loan and any other mandatory prepayment obligations hereunder); and
 - (xxxiv) beginning on October 1, 2020 and on the first Business Day of each and every month thereafter during the Term, the Borrower shall prepay US\$50,000 of principal toward the balance then outstanding under the Revolving Facility, and the Maximum Revolver Amount shall be reduced by an amount equal to each such payment (for greater certainty, such monthly prepayment of principal is in addition to the Borrower's monthly interest payment obligation with respect to the Revolving Facility and any other mandatory prepayment obligations hereunder).
3. Continuing Effect. Except as expressly set forth in this Agreement, all other terms and conditions of the Loan Agreement, the Security and any other Credit Document shall remain unchanged and shall continue in full force and effect, in each case as may be amended hereby. No amendment or waiver of any other term, condition, covenant, agreement or any other aspect of the Loan Agreement is intended or implied. This Agreement is a Credit Document.
4. Reaffirmation and Confirmation. Each Obligor hereby ratifies, affirms, acknowledges and agrees that the Loan Agreement and the other Credit Documents to which it is a party represent its valid, enforceable and collectible obligations, and further acknowledges that there are no existing claims, defenses, personal or otherwise, or rights of setoff whatsoever with respect to the Loan Agreement or any other Credit Document. Each Obligor hereby agrees that this Agreement in no way acts as a release or relinquishment of the Security and other rights securing payments of the Obligations. The Security and other rights securing payment of the Obligations are hereby ratified and confirmed by each Obligor in all respects.
5. Costs and Expenses. All costs incurred by the Agent and the Lenders in preparing this First Amendment (including all external legal fees incurred by the Agent and the Lenders) shall be on the account of the Borrower, and shall form part of the Obligations secured by the General Security Agreement granted by the Borrower to the Agent dated as of February 27, 2020.

6. Prior Agreements. This First Amendment supersedes and replaces any prior agreements or understandings with respect to any of the matters provided for herein.
7. Governing Law. This First Amendment shall be deemed to have been made in the Province of Ontario and shall be governed by and interpreted in accordance with the laws of such Province and the laws of Canada applicable therein.
8. Counterparts. This Agreement may be executed in any number of separate counterparts by any one or more of the parties thereto, and all of such counterparts taken together shall constitute one and the same instrument. Delivery by any party of an executed counterpart of this Agreement by telecopier, PDF or by other electronic means shall be as effective as delivery of a manually executed counterpart of such party.

[Signature page follows.]

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

BRIDGING FINANCE INC., as Agent and as Lender

Per: /s/ Graham Marr
Name: Graham Marr
Title: President

I have authority to bind the Corporation.

URBAN-GRO, INC., as Borrower

Per: /s/ Bradley Natrass
Name: Bradley Natrass
Title: CEO

I/We have authority to bind the Corporation.

URBAN-GRO CANADA TECHNOLOGIES INC., as Guarantor

Per: /s/ Bradley Natrass
Name: Bradley Natrass
Title: CEO

I/We have authority to bind the Corporation.

IMPACT ENGINEERING, INC., as Guarantor

Per: /s/ Bradley Natrass
Name: Bradley Natrass
Title: CEO

I/We have authority to bind the Corporation.

AGREEMENT

THIS AGREEMENT (this "Agreement") is made and entered into this 18th day of September 2020, by and between urban-gro, Inc. ("UG") and George (Bob) Pullar ("Pullar"). Pullar and UG are referred to as "Parties" or "Party".

1. **Settlement Consideration.**
 - a. Concurrent with his execution of this Agreement, Pullar assigns to UG and relinquishes all right, title, and interest in and to 1,000,000 shares of UG common stock, which Pullar and UG agree have never been issued but to which he might otherwise have some claim, whether or not those 1,000,000 shares are fully vested in Pullar.
 - b. A condition precedent to this Agreement is UG and Total Grow Holdings, LLC ("TGH") executing a separate written settlement agreement (the "TGH Agreement") to, in part, resolve Boulder County Dist. Ct. Case No. 2020cv30382. Upon execution of that agreement, UG shall transfer, sell, and assign to Pullar all of its ownership interests in TGH. The assignment shall be accomplished by execution of the form of Assignment, attached as Exhibit 1. UG does not dispute that the valuation of TGH is \$800,000 and the value of the transfer of 24.4% of TGH is \$195,200.
 - c. Upon execution of the TGH Agreement, UG shall issue to Pullar a fully vested warrant, which shall expire five years from the date of issuance, to purchase 400,000 shares of UG common stock, par value \$0.001 per share ("Common Stock") at a \$1.00 strike price per share with a provision allowing cashless exercise. The issuance shall be accomplished by execution of the form of Warrant Agreement, attached as Exhibit 2.
2. **Mutual Release.** Except to the extent of obligations created in this Agreement, the Parties shall mutually release each other from any and all claims through the date of the execution of this Agreement.
3. **Attorneys' Fees and Costs.** If any party commences an action to enforce this Agreement, the prevailing party in any such action shall be entitled to recover its costs and reasonable attorneys' fees.
4. **Subsequent Actions.** To the extent they deem it necessary or appropriate, the Parties shall cooperate in the execution of any documents necessary to reduce this agreement to writing and to accomplish its terms.
5. **General Warranties and Representations.** The Parties represent and warrant that they have read this Agreement and know and understand its contents fully. The Parties further represent and warrant that they have voluntarily executed this Agreement after having consulted with counsel of their choosing, and without being pressured or influenced by any representation of any person acting on behalf of any other party.
6. **Pullar Warranties, Representations and Agreements.**
 - a. **Investment Intent.** Pullar is acquiring the Warrant and the shares of Common Stock underlying the Warrant (collectively, the "Securities") for his own account for investment purposes only and not with a view to or for distributing or reselling such Securities or any part thereof, except pursuant to sales that are exempt from the registration requirements of the Securities Act and/or sales registered under the Securities Act. Pullar does not have any agreement or understanding, directly or indirectly, with any person or entity to distribute the Securities.

- b. Investor Status. At the time Pullar was offered the Securities, he was, and, as of the date hereof is, an “accredited investor” as defined in Rule 501(a) of Regulation D under the Securities Act. Pullar is familiar with the “bad actor” provisions of Rule 506(d) under the Securities Act is not and has not been subject to or experienced any of the events described in Rule 506(d)(1)(i)-(viii).
- c. General Solicitation. Pullar is not acquiring the Securities as a result of or subsequent to any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.
- d. Reliance. Pullar understands and acknowledges that (i) the Securities are being offered and sold to it without registration under the Securities Act in a transaction that is exempt from the registration provisions of the Securities Act, and (ii) the availability of such exemption depends in part on, and UG will rely upon the accuracy and truthfulness of, the foregoing representations, and Pullar hereby consents to such reliance.
- e. Investigation. Pullar has conducted his own independent investigation and analysis of UG. In entering into this Agreement, Pullar has relied solely upon his own investigation and analysis and the representations and warranties of UG contained herein. Pullar acknowledges that, other than as expressly set forth in this Agreement, neither UG nor any of its respective directors, officers, employees, affiliates, agents or representatives make any representation or warranty, either express or implied, as to the accuracy or completeness of any of the information provided or made available to Pullar or his agents or representatives prior to the execution of this Agreement. Pullar is not relying upon any representation, warranty or agreement with respect to the accuracy or completeness of the information (written or oral) provided to Pullar in connection with the transactions contemplated hereby, or with respect to the appropriateness, suitability or sufficiency of such information for the purpose of enabling Pullar to evaluate such investment, other than the representations, warranties and agreements of UG expressly contained in this Agreement. Pullar acknowledges that he has received all information requested by him to make an investment decision.
- f. Restricted Securities. Pullar understands that the Securities have not been, and will not be, registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of Pullar’s representations as expressed herein. Pullar understands that the Securities are “restricted securities” under applicable U.S. federal and state securities laws and that, pursuant to these laws, Pullar must hold the Securities indefinitely unless they are registered with the Securities and Exchange Commission and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Pullar acknowledges that UG has no obligation to register or qualify the Securities for resale. Pullar further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities, and on requirements relating to UG which are outside of Pullar’s control, and which UG is under no obligation and may not be able to satisfy.
- g. Market Stand-Off. In connection with any underwritten public offering by UG of its equity securities pursuant to an effective registration statement filed under the Securities Act, Pullar agrees that he shall not, directly or indirectly, sell, make any short sale of, loan, hypothecate, pledge, offer, grant or sell any option or other contract for the purchase of, purchase any option or other contract for the sale of, or otherwise dispose of or transfer, or agree to engage in any of the foregoing transactions with respect to, any Securities acquired under this Agreement without the prior written consent of UG or its managing underwriter. Such restriction (the “Market Stand-Off”) shall be in effect for such period of time following the date of the final prospectus for the offering as may be requested by UG or such underwriter. In no event, however, shall such period exceed 180 days plus such additional period as may reasonably be requested by UG or such underwriter to accommodate regulatory restrictions on (i) the publication or other distribution of research reports or (ii) analyst recommendations and opinions, including (without limitation) the restrictions set forth in FINRA Rule 2711(f)(4) or NYSE Rule 472(f)(4), or any successor provisions or amendments thereto. The Market Stand-Off shall in any event terminate two years after the date of UG’s initial firm commitment underwritten public offering. In the event of the declaration of a stock dividend, a spin-off, a stock split, an adjustment in conversion ratio, a recapitalization or a similar transaction affecting UG’s outstanding securities without receipt of consideration, any new, substituted or additional securities which are by reason of such transaction distributed with respect to any Securities subject to the Market Stand-Off, or into which such Securities thereby become convertible, shall immediately be subject to the Market Stand-Off. In order to enforce the Market Stand-Off, UG may impose stop-transfer instructions with respect to the Securities acquired under this Agreement until the end of the applicable stand-off period. UG’s underwriters shall be beneficiaries of the agreement set forth in this Section 7.

7. **Successors and Assigns.** This Agreement shall be binding upon the Parties and upon their heirs, personal representatives, successors, assigns, and/or affiliates.
8. **Modification.** This Agreement may not be modified except by a mutually executed amendment to this Agreement, dated and executed by authorized representatives of each of the Parties. No oral statement or writing that does not meet the requirements of this paragraph will constitute a modification or waiver of any provision of this Agreement.
9. **Waiver.** No breach of any provision of this Agreement shall be deemed waived unless it is waived in writing. Waiver of any one breach shall not be deemed a waiver of any other breach of the same or any other provision of this Agreement.
10. **Complete Agreement.** This Agreement constitutes the entire agreement between the Parties with respect to the subject matter hereof, and all other prior or contemporaneous understandings or agreements, whether written or oral, among the Parties, with respect to the subject of the potential claims previously referenced herein, are hereby superseded in their entirety.
11. **General Provisions.**
 - a. **Jurisdiction and Venue.** The Parties agree that for any and all disputes, differences, or questions arising under this Agreement, jurisdiction shall be exclusively in the State of Colorado, and venue shall lie in either the Boulder County or the United States District Court for the District of Colorado.
 - b. **Governing Law.** This Agreement shall be governed and construed in accordance with the laws of the State of Colorado.
 - c. **Headings.** The titles and headings of any provision herein exist for the convenience only and in no way shall restrict or modify this Agreement.
 - d. **Invalid Provisions.** If any provision to this Agreement is held to be invalid or unenforceable under any present or future laws, such provision shall be fully severable, and the remaining provisions shall constitute the Parties' agreement.
 - e. **Counterpart Execution.** This Agreement may be signed in multiple counterparts, including with facsimile or scanned signatures, and each counterpart when taken with the other executed counterparts, shall constitute a binding agreement among the Parties executed as of the date first written above.
 - f. **No Admission of Liability.** This Agreement represents a compromise of disputed issues, and shall not be deemed an admission of liability by or against any Party.
 - g. **Authorization.** Each person executing this Agreement on behalf of any Party represents and warrants to each other Party that he or she is duly authorized to execute this Agreement on behalf of the Party for which he or she is so executing this Agreement and to bind such Party to the terms hereof. The foregoing representation and warranty is included for the reliance of the Parties, and all of such representations and warranties shall survive the execution and consummation of the Parties' obligations under this Agreement.
 - h. **Construction.** This Agreement has been mutually negotiated. Any ambiguities will not be interpreted in favor of any party.
12. **Non-Disparagement.** The Parties agree not to make any statements, written or verbal, or cause or encourage others to make any statements, written or verbal, that defame, disparage or in any way criticize the personal or business reputation, practices, or conduct of any other party hereto, including their employees, managers, directors, and officers.

13. **Confidentiality.** The Parties hereto understand and agree that the terms of this Agreement shall be kept confidential and that, except as otherwise provided herein, they will not reveal or cause to be revealed any of these terms to any third party. The Parties agree that they will not in any way publicize or cause to be publicized in any news or communications media, including but not limited to, newspapers, magazines, journals, radio or television, the terms or conditions of this Agreement. Notwithstanding the foregoing: (a) the Parties may disclose this Agreement to their attorneys, accountants and tax professionals, (b) the Parties may disclose this Agreement as necessary to fulfill standard or legally required corporate reporting or disclosure requirements, or (c) the Parties may disclose this Agreement insofar as such disclosure may be necessary to enforce its terms or as may be required by law, order of the court, or lawful subpoena. Upon inquiry by third parties about the status of the dispute between the Parties, the Parties may indicate only that the dispute has been resolved and that all claims have been settled.

Signature Page Follows

urban-gro, inc.

/s/ Brad Natrass

By:Brad Natrass

Its: Chief Executive Officer

/s/ George (Bob) Pullar

George (Bob) Pullar

**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 3, 2020

/s/ Bradley Natrass
Bradley Natrass, 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 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 3, 2020

/s/ Richard 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, 2020, as filed with the Securities and Exchange Commission on November 3, 2020, (the "Report"), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of 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 3, 2020

/s/ Bradley Natrass
Bradley Natrass, Chief Executive Officer

Dated: November 3, 2020

/s/ Richard Akright
Richard Akright, Chief Financial Officer