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DELTA REPORT

10-Q

URBAN-GRO, INC.

10-Q - JUNE 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS	668
CHANGES	118
DELETIONS	162
ADDITIONS	388

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **March 31, 2023** **June 30, 2023**

or

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

For the transition period from ________ to ________.

Commission File Number: **001-39933**

URBAN-GRO, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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 x No o

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	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	x

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. o

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

The number of shares of the registrant's only class of common stock outstanding as of April 24, 2023 July 31, 2023 was 10,938,556 11,670,580 shares.

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CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including statements related to future events, challenges we may face, business strategy, future performance, future operations, backlog, financial position, estimated or projected revenues and losses, projected costs, prospects, plans and objectives of management. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek," "anticipate," "plan," "continue," "estimate," "expect," "may," "will," "project," "predict," "potential," "intend," "could," "should," "believe," and variations of such words or their negative and similar expressions. Forward-looking statements should not be read as a guarantee of future performance or results, and may not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on management's belief, based on currently available information, as to the outcome and timing of future events. These statements involve estimates, assumptions, known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those expressed in such forward-looking statements. When evaluating forward-looking statements, you should consider the risk factors and other cautionary statements described in this Quarterly Report on Form 10-Q and under the heading "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022. We believe the expectations reflected in the forward-looking statements contained in this report are reasonable, but no assurance can be given that these expectations will prove to be correct. Forward-looking statements should not be unduly relied upon. Important factors that could cause actual results or events to differ materially from those expressed in forward-looking statements include, but are not limited to:

- risks related to our operating strategy;
- competition for projects in our markets;
- our ability to predict and respond to new laws and governmental regulatory actions affecting our business, including foreign laws and governmental regulation;
- risks related to delays in the grant of necessary licenses to clients and delays in passage of legislation expected to benefit our clients, which could delay the funding and start of projects projects;
- our ability to successfully develop new and/or enhancements to our product offerings and develop a product mix to meet demand;
- our ability to meet or exceed market expectations from analysts;
- unfavorable economic conditions, increases in interest rates and restrictive financing markets that may cause customers to cancel contracts reflected in our backlog or cause sales to decrease;
- our ability to successfully identify, manage and integrate acquisitions;
- our ability to accurately estimate the overall risks, requirements or costs when we bid on or negotiate contracts that are ultimately awarded to us;
- climate change and related laws and regulations;

- our ability to manage our supply chain in a manner that ensures that we are able to obtain adequate raw materials, equipment and essential supplies in a timely manner and at favorable prices;
- our ability to attract and retain key personnel;
- risks associated with concentration of a large portion of our business from a relatively small number of key clients/customers and the effect a loss of a key client/customer could have on our business;
- risks associated with customers or suppliers not fulfilling contracts;
- risks associated with reliance on key suppliers and risks such suppliers could change incentive programs that negatively affect our returns;
- the impact of inflation on costs of labor, raw materials and other items that are critical to our business;
- property damage and other claims and insurance coverage issues;
- the outcome of litigation or disputes;
- risks related to our information technology systems and infrastructure, including cybersecurity incidents;
- risks to our reputation from negative publicity, social media posts or negative interpretations of our ESG efforts;
- our ability to maintain effective internal control over financial reporting; and
- other events outside of our control.

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

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

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

		March 31, 2023	December 31, 2022		June 30, 2023	December 31, 2022
ASSETS	**ASSETS**			**ASSETS**		
Current assets:	Current assets:			Current assets:		
Cash	Cash	$ 7,327,485	$ 12,008,003	Cash	$ 8,559,181	$ 12,008,003
Accounts receivable, net	Accounts receivable, net	22,069,269	15,380,292	Accounts receivable, net	15,475,146	15,380,292
Contract receivables	Contract receivables	2,817,407	3,004,282	Contract receivables	6,948,417	3,004,282
Prepaid expenses and other assets	Prepaid expenses and other assets	4,685,529	4,164,960	Prepaid expenses and other assets	3,540,554	4,164,960
Total current assets	Total current assets	36,899,690	34,557,537	Total current assets	34,523,298	34,557,537
Non-current assets:	Non-current assets:			Non-current assets:		
Property and equipment, net	Property and equipment, net	1,366,761	1,307,146	Property and equipment, net	1,332,908	1,307,146
Operating lease right of use assets, net	Operating lease right of use assets, net	2,542,644	2,618,825	Operating lease right of use assets, net	2,396,668	2,618,825
Investments	Investments	2,572,103	2,559,307	Investments	2,584,964	2,559,307
Goodwill	Goodwill	15,572,050	15,572,050	Goodwill	15,572,050	15,572,050
Intangible assets, net	Intangible assets, net	5,140,667	5,450,687	Intangible assets, net	4,876,503	5,450,687
Total non-current assets	Total non-current assets	27,194,225	27,508,015	Total non-current assets	26,763,093	27,508,015

Total assets	**Total assets**	**$ 64,093,915**	**$ 62,065,552**	**Total assets**	**$ 61,286,391**	**$ 62,065,552**
LIABILITIES AND STOCKHOLDERS' EQUITY	**LIABILITIES AND STOCKHOLDERS' EQUITY**			**LIABILITIES AND STOCKHOLDERS' EQUITY**		
Current liabilities:	Current liabilities:			Current liabilities:		
Accounts payable	Accounts payable	$ 14,865,846	$ 9,960,364	Accounts payable	$ 18,552,579	$ 9,960,364
Accrued expenses	Accrued expenses	5,215,255	3,196,961	Accrued expenses	5,183,451	3,196,961
Contract liabilities	Contract liabilities	2,413,423	1,294,452	Contract liabilities	3,344,832	1,294,452
Customer deposits	Customer deposits	2,355,609	2,571,161	Customer deposits	1,940,394	2,571,161
Contingent consideration	Contingent consideration	2,537,291	2,799,287	Contingent consideration	238,621	2,799,287
Promissory note	Promissory note	2,908,213	3,832,682	Promissory note	1,941,188	3,832,682
Operating lease liabilities	Operating lease liabilities	606,648	600,816	Operating lease liabilities	617,815	600,816
Total current liabilities	Total current liabilities	30,902,285	24,255,723	Total current liabilities	31,818,880	24,255,723
Non-current liabilities:	Non-current liabilities:			Non-current liabilities:		
Operating lease liabilities	Operating lease liabilities	1,964,804	2,044,782	Operating lease liabilities	1,822,754	2,044,782
Deferred tax liability	Deferred tax liability	968,151	1,033,283	Deferred tax liability	914,185	1,033,283
Total non-current liabilities	Total non-current liabilities	2,932,955	3,078,065	Total non-current liabilities	2,736,939	3,078,065
Commitments and contingencies (note 10)	Commitments and contingencies (note 10)			Commitments and contingencies (note 10)		
Stockholders' equity	Stockholders' equity			Stockholders' equity		
Preferred stock, $0.10 par value; 10,000,000 shares authorized; 0 shares issued and outstanding		—	—			
Common stock, $0.001 par value; 100,000,000 shares authorized; 12,388,389 issued and 10,938,556 outstanding as of March 31, 2023, and 12,220,593 issued and 10,770,760 outstanding as of December 31, 2022		12,388	12,221			
Preferred stock, $0.10 par value; 3,000,000 shares and 10,000,000 shares authorized as of June 30, 2023, and December 31, 2022, respectively; 0 shares issued and outstanding				Preferred stock, $0.10 par value; 3,000,000 shares and 10,000,000 shares authorized as of June 30, 2023, and December 31, 2022, respectively; 0 shares issued and outstanding	—	—

Common stock, $0.001 par value; 30,000,000 shares and 100,000,000 shares authorized as of June 30, 2023, and December 31, 2022, respectively; 13,056,409 shares issued and 11,606,576 shares outstanding as of June 30, 2023; 12,220,593 shares issued and 10,770,760 shares outstanding as of December 31, 2022				Common stock, $0.001 par value; 30,000,000 shares and 100,000,000 shares authorized as of June 30, 2023, and December 31, 2022, respectively; 13,056,409 shares issued and 11,606,576 shares outstanding as of June 30, 2023; 12,220,593 shares issued and 10,770,760 shares outstanding as of December 31, 2022	13,056	12,221
Additional paid-in capital	Additional paid-in capital	85,554,375	84,882,982	Additional paid-in capital	87,468,937	84,882,982
Treasury shares, cost basis: 1,449,833 shares as of March 31, 2023 and as of December 31, 2022		(12,045,542)	(12,045,542)			
Treasury shares, cost basis: 1,449,833 shares as of June 30, 2023, and as of December 31, 2022				Treasury shares, cost basis: 1,449,833 shares as of June 30, 2023, and as of December 31, 2022	(12,045,542)	(12,045,542)
Accumulated deficit	Accumulated deficit	(43,262,546)	(38,117,897)	Accumulated deficit	(48,705,879)	(38,117,897)
Total stockholders' equity	Total stockholders' equity	30,258,675	34,731,764	Total stockholders' equity	26,730,572	34,731,764
Total liabilities and stockholders' equity	**Total liabilities and stockholders' equity**	**$ 64,093,915**	**$ 62,065,552**	**Total liabilities and stockholders' equity**	**$ 61,286,391**	**$ 62,065,552**

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

URBAN-GRO, INC..

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME LOSS (unaudited)

		Three Months Ended March 31,			Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022		2023	2022	2023	2022
Revenues:	**Revenues:**			**Revenues:**				
Equipment systems	Equipment systems	$ 2,911,823	$ 17,067,344	Equipment systems	$ 4,619,887	$ 10,077,572	$ 7,531,711	$ 27,144,916
Services	Services	3,470,653	3,638,507	Services	3,034,574	3,027,556	6,505,227	6,666,062
Construction design-build	Construction design-build	10,205,952	—	Construction design-build	11,048,997	2,917,321	21,254,949	2,917,321
Other	Other	176,957	347,018	Other	134,086	259,054	311,043	606,072
Total revenues and other income	Total revenues and other income	16,765,385	21,052,869	Total revenues and other income	18,837,544	16,281,503	35,602,930	37,334,371
Cost of revenues:	**Cost of revenues:**			**Cost of revenues:**				
Equipment systems	Equipment systems	2,477,505	13,974,779	Equipment systems	4,008,911	8,617,945	6,521,587	22,920,542
Services	Services	1,997,423	1,929,248	Services	1,972,844	1,279,492	3,947,382	2,880,920
Construction design-build	Construction design-build	9,315,993	—	Construction design-build	9,888,907	2,692,700	19,192,615	2,692,700
Other	Other	132,616	246,822	Other	92,248	189,420	224,864	436,243
Total cost of revenues	Total cost of revenues	13,923,537	16,150,849	Total cost of revenues	15,962,910	12,779,557	29,886,448	28,930,405
Gross profit	**Gross profit**	2,841,848	4,902,020	**Gross profit**	2,874,634	3,501,946	5,716,482	8,403,966

Operating expenses:	**Operating expenses:**			**Operating expenses:**				
General and administrative	General and administrative	7,098,858	4,725,301	General and administrative	5,874,346	4,240,658	12,973,204	8,965,957
Stock-based compensation	Stock-based compensation	479,641	882,000	Stock-based compensation	622,547	882,000	1,102,188	1,764,000
Intangible asset amortization	Intangible asset amortization	310,020	162,500	Intangible asset amortization	264,165	306,225	574,184	468,725
Total operating expenses	Total operating expenses	7,888,519	5,769,801	Total operating expenses	6,761,058	5,428,883	14,649,576	11,198,682
Loss from operations	**Loss from operations**	**(5,046,671)**	**(867,781)**	**Loss from operations**	**(3,886,424)**	**(1,926,937)**	**(8,933,094)**	**(2,794,716)**
Non-operating income (expense):	**Non-operating income (expense):**			**Non-operating income (expense):**				
Interest expense	Interest expense	(73,216)	(7,658)	Interest expense	(44,989)	(7,658)	(118,205)	(15,317)
Interest income	Interest income	73,131	79,852	Interest income	75,061	47,275	148,191	127,126
Contingent consideration	Contingent consideration	(160,232)	—	Contingent consideration	—	—	(160,232)	—
Other expense		(2,793)	(8,690)					
Loss on settlement				Loss on settlement	(1,500,000)	—	(1,500,000)	—
Other income (expense)				Other income (expense)	(140,947)	71,563	(143,739)	62,874
Total non-operating income (expense)	Total non-operating income (expense)	(163,110)	63,504	Total non-operating income (expense)	(1,610,875)	111,180	(1,773,985)	174,683
Loss before income taxes	**Loss before income taxes**	**(5,209,781)**	**(804,277)**	**Loss before income taxes**	**(5,497,299)**	**(1,815,757)**	**(10,707,079)**	**(2,620,033)**
Income tax benefit	Income tax benefit	65,132	108,060	Income tax benefit	53,966	76,453	119,097	184,512
Net loss	**Net loss**	**$ (5,144,649)**	**$ (696,217)**	**Net loss**	**$ (5,443,333)**	**$ (1,739,304)**	**$ (10,587,982)**	**$ (2,435,521)**
Comprehensive loss	**Comprehensive loss**	**$ (5,144,649)**	**$ (696,217)**	**Comprehensive loss**	**$ (5,443,333)**	**$ (1,739,304)**	**$ (10,587,982)**	**$ (2,435,521)**
Loss per share - basic and diluted	Loss per share - basic and diluted	$ (0.48)	$ (0.07)	Loss per share - basic and diluted	$ (0.50)	$ (0.17)	$ (0.97)	$ (0.23)
Weighted average shares - basic and diluted	Weighted average shares - basic and diluted	10,772,705	10,508,972	Weighted average shares - basic and diluted	10,945,978	10,508,972	10,859,820	10,527,975

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

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

		Common Stock		Additional	Accumulated	~~Treasury Stock~~	Total		Common Stock		Additional	Accumu
		Shares	Amount	Paid-in Capital	Deficit	Shares	Stockholders' Equity	Amount			Paid-in Capital	Defic
Balance, December 31, 2022	**Balance, December 31, 2022**	**12,220,593**	**$ 12,221**	**$84,882,982**	**$ (38,117,897)**	**$(12,045,542)**	**$ 34,731,764**	**Balance, December 31, 2022**	**12,220,593**	**$12,221**	**$84,882,982**	**$ (38,11**
Stock-based compensation	Stock-based compensation	—	—	479,641	—	—	479,641	Stock-based compensation	—	—	479,641	
Stock grant program vesting	Stock grant program vesting	103,572	103	(103)	—	—	—	Stock grant program vesting	103,572	103	(103)	

		Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total		Shares	Amount	Additional Paid-in Capital	Accumulated Deficit
Stock issued for contingent consideration	Stock issued for contingent consideration	64,224	64	191,855	—	—	191,919	Stock issued for contingent consideration	64,224	64	191,855	
Net loss for period ended March 31, 2023		—	—	—	(5,144,649)	—	(5,144,649)					
Net loss								Net loss	—	—	—	(5,14
Balance, March 31, 2023	**Balance, March 31, 2023**	**12,388,389**	**$ 12,388**	**$85,554,375**	**$ (43,262,546)**	**$(12,045,542)**	**$ 30,258,675**	**Balance, March 31, 2023**	**12,388,389**	**$12,388**	**$85,554,375**	**$ (43,26**
Stock-based compensation								Stock-based compensation	—	—	622,547	
Stock grant program vesting								Stock grant program vesting	86,020	86	(86)	
Stock issued for contingent consideration								Stock issued for contingent consideration	582,000	582	1,292,101	
Net loss								Net loss	—	—	—	(5,44
Balance, June 30, 2023								**Balance, June 30, 2023**	**13,056,409**	**$13,056**	**$87,468,937**	**$ (48,70**

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2021	**11,588,110**	**$ 11,588**	**$ 78,679,220**	**$ (22,839,988)**	**$ (7,683,490)**	**$ 48,167,330**
Stock-based compensation	—	—	882,000	—	—	882,000
Treasury stock	—	—	—	—	(3,773,177)	(3,773,177)
Stock exercised	4,555	5	28,792	—	—	28,797
Stock issued with exercise of warrants	34,863	35	(35)	—	—	—
Net Loss	—	—	—	(696,217)	—	(696,217)
Balance, March 31, 2022	**11,627,528**	**$ 11,628**	**$ 79,589,977**	**$ (23,536,205)**	**$ (11,456,667)**	**$ 44,608,733**
Stock-based compensation	—	—	882,000	—	—	882,000
Stock issuance related to acquisition	283,515	283	2,499,717	—	—	2,500,000
Net Loss	—	—	—	(1,739,304)	—	(1,739,304)
Balance, June 30, 2022	**11,911,043**	**$ 11,911**	**$ 82,971,694**	**$ (25,275,509)**	**$ (11,456,667)**	**$ 46,251,429**

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

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

Three Months Ended March 31,		Six Months Ended June 30,	
2023	2022	2023	2022

Cash flows from operating activities:	**Cash flows from operating activities:**			**Cash flows from operating activities:**		
Net loss	Net loss	$ (5,144,649)	$ (696,217)	Net loss	$ (10,587,982)	$ (2,435,521)
Adjustments to reconcile net loss to net cash used in operating activities:	Adjustments to reconcile net loss to net cash used in operating activities:			Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	Depreciation and amortization	404,069	218,278	Depreciation and amortization	828,232	589,835
Deferred income tax benefit	Deferred income tax benefit	(65,132)	(108,060)	Deferred income tax benefit	(119,097)	(184,512)
Stock-based compensation expense	Stock-based compensation expense	479,641	882,000	Stock-based compensation expense	1,102,188	1,764,000
Loss on settlement				Loss on settlement	1,500,000	—
Change in fair value of contingent consideration	Change in fair value of contingent consideration	160,232	—	Change in fair value of contingent consideration	160,232	—
Other, net	Other, net	327,189	(56,921)	Other, net	472,277	(54,942)
Changes in operating assets and liabilities (net of acquired amounts):	Changes in operating assets and liabilities (net of acquired amounts):			Changes in operating assets and liabilities (net of acquired amounts):		
Accounts receivable		(6,827,927)	(354,181)			
Prepaid expenses and other assets		(334,525)	1,439,679			
Accounts payable and accrued expenses		7,118,280	1,092,601			
Accounts receivable and contract receivables				Accounts receivable and contract receivables	(4,424,814)	663,955
Prepaid expenses and other assets and property and equipment				Prepaid expenses and other assets and property and equipment	1,030,205	6,275,332
Accounts payable, contract liabilities, and accrued expenses				Accounts payable, contract liabilities, and accrued expenses	11,289,944	(1,320,152)
Change in contingent consideration from indemnification				Change in contingent consideration from indemnification	(917,699)	—
Operating lease liability	Operating lease liability	(174,592)	(33,913)	Operating lease liability	(360,787)	(163,054)
Customer deposits	Customer deposits	(215,552)	(6,110,537)	Customer deposits	(630,767)	(10,059,378)
Net cash used in operating activities	**Net cash used in operating activities**	**(4,272,966)**	**(3,727,271)**	**Net cash used in operating activities**	**(658,068)**	**(4,924,437)**
Cash flows from investing activities:	**Cash flows from investing activities:**			**Cash flows from investing activities:**		
Business combinations, net of cash acquired				Business combinations, net of cash acquired	—	(2,709,148)
Purchases of property and equipment	Purchases of property and equipment	(133,833)	(32,336)	Purchases of property and equipment	(226,700)	(374,630)
Net cash used in investing activities	**Net cash used in investing activities**	**(133,833)**	**(32,336)**	**Net cash used in investing activities**	**(226,700)**	**(3,083,778)**

Cash flows from financing activities:	**Cash flows from financing activities:**			**Cash flows from financing activities:**		
Proceeds from issuance of common stock, net of offering costs		—	28,797			
Proceeds from issuance of common stock				Proceeds from issuance of common stock	—	28,797
Repurchase of common stock	Repurchase of common stock	—	(3,773,177)	Repurchase of common stock	—	(3,773,177)
Repayment of finance lease ROU liability	Repayment of finance lease ROU liability	(43,410)	(36,000)	Repayment of finance lease ROU liability	(88,299)	(72,000)
Payments to settle contingent consideration	Payments to settle contingent consideration	(230,309)	—	Payments to settle contingent consideration	(479,457)	—
Repayment of promissory note				Repayment of promissory note	(1,996,298)	—
Net cash used in financing activities	**Net cash used in financing activities**	**(273,719)**	**(3,780,380)**	**Net cash used in financing activities**	**(2,564,054)**	**(3,816,380)**
Net change in cash	Net change in cash	(4,680,518)	(7,539,987)	Net change in cash	(3,448,822)	(11,824,595)
Cash at beginning of period	Cash at beginning of period	12,008,003	34,592,190	Cash at beginning of period	12,008,003	34,592,190
Cash at end of period	**Cash at end of period**	**$ 7,327,485**	**$ 27,052,203**	**Cash at end of period**	**$ 8,559,181**	**$ 22,767,595**
Supplemental cash flow information:	**Supplemental cash flow information:**			**Supplemental cash flow information:**		
Cash paid for interest	Cash paid for interest	$ 6,475	$ 7,658	Cash paid for interest	$ 13,402	$ 15,317
Net cash paid for income taxes	Net cash paid for income taxes	$ 23,487	$ 55,120	Net cash paid for income taxes	$ 134,252	$ 52,733
Supplemental disclosure of non-cash investing and financing activities:	**Supplemental disclosure of non-cash investing and financing activities:**			**Supplemental disclosure of non-cash investing and financing activities:**		
Stock issued for acquisitions				Stock issued for acquisitions	$ —	$ 2,500,000
Operating lease right of use assets and liabilities extension	Operating lease right of use assets and liabilities extension	$ 101,264	$ —	Operating lease right of use assets and liabilities extension	$ 295,631	$ 55,297

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

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

NOTE 1 – ORGANIZATION, ACQUISITIONS, AND LIQUIDITY

Organization

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

Acquisitions

DVO

Effective October 31, 2022, the Company entered into an agreement with Dawson Van Orden, Inc. ("Seller" or "DVO") and DVO's shareholders (the "DVO Shareholders") to acquire substantially all of the operating assets and liabilities of DVO, a Texas based engineering firm with significant experience in indoor CEA. The purchase price of $6.1 million, after working capital adjustments, was comprised of (i) $1.2 million in cash, (ii) a $3.8 million Seller's promissory note, and (iii) $1.1 million of the Company's common stock. The Seller's promissory note is to be paid out over four quarters beginning in January 2023. The Seller's promissory note balances as of March 31, 2023 June 30, 2023, and December 31, 2022, were $2,908,213 1,941,188 and $3,832,682, respectively. The purchase price excludes up to $1.1 million of contingent consideration earnout that may become payable to the Seller dependent on the continued employment of the DVO Shareholders. The contingent consideration earnout is payable, at the Company's discretion, in cash or shares of the Company's Company's common stock at with the discretion value of such shares being determined based upon the volume-weighted average price ("VWAP") of the Company. Company's common stock in the ten trading days prior to the end of the applicable quarter for which the quarterly gross profit is calculated.

The Company accounted for the acquisition as follows:

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

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

Emerald

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

The Company accounted for the acquisition as follows:

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

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

		Three Months Ended March 31,			Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022		2023	2022	2023	2022
Revenues:	**Revenues:**			**Revenues:**				
Equipment systems	Equipment systems	$ 2,911,823	$ 17,067,344	Equipment systems	$ 4,619,887	$ 10,077,572	$ 7,531,711	$ 27,144,916
Services	Services	3,470,653	3,638,507	Services	3,034,574	3,027,556	6,505,227	6,666,062
Construction design-build	Construction design-build	10,205,952	9,244,863	Construction design-build	11,048,997	5,353,905	21,254,949	14,598,769
Other	Other	176,957	347,018	Other	134,086	259,054	311,043	606,072
Total revenues and other income	Total revenues and other income	16,765,385	30,297,732	Total revenues and other income	18,837,544	18,718,087	35,602,930	49,015,819
Net loss	**Net loss**	**$ (5,144,649)**	**$ (3,511)**	**Net loss**	**$ (5,443,333)**	**$ (1,556,748)**	**$ (10,587,982)**	**$ (1,456,161)**

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

Per the Emerald Acquisition Agreement and Plan of Merger (the “Emerald Acquisition Agreement”), when the Company acquired all of the issued and outstanding capital stock of Emerald, the Emerald Sellers indemnified the Company for any material liabilities, losses, and actions or inaction which took place prior to the acquisition and that were not disclosed as part of the transaction. To that end, a pre-acquisition Emerald project incurred a substantial loss that was not disclosed in the Emerald Acquisition Agreement. The majority shareholder of Emerald has agreed to indemnify the Company for the loss, which is currently estimated to be $2.2 million (the “Indemnified Loss”). The Company has offset $1.0 million of the Indemnified Loss against the total remaining contingent consideration and certain other liabilities owed to the majority shareholder of Emerald. Further, the Company has agreed to satisfy up to $1.2 million of the Indemnified Loss in the event a certain Emerald project is above a 7% profit margin, on a dollar to dollar basis.

Liquidity and Going Concern

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Condensed Consolidated Financial Statements

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

Significant Accounting Policies

For a detailed discussion about the Company’s significant accounting policies, refer to *Note 2 — “Summary Summary of Significant Accounting Policies”*, in the Company’s consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022. During the three six months ended March 31, 2023 June 30, 2023, there were no material changes made to the Company’s significant accounting policies.

Use of Estimates

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

Reclassification

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

Balance Sheet Classifications

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

Contract Assets and Liabilities

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

Recently Issued Accounting Standards

As of March 31, 2023 June 30, 2023, and through the filing of this report, no Accounting Standards Updates have been issued and not yet adopted that are applicable to the Company and that would have a material effect on the Company's unaudited condensed consolidated financial statements and related disclosures.

NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company recognizes revenue predominantly from the sale of equipment systems, services, construction design-build, and from other various immaterial contracts with customers from its CEA and Commercial sectors. The table below presents the revenue by source for the three and six months ended March 31, 2023 June 30, 2023, and 2022:

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

	CEA		**Commercial**		**Total**	
	For the three months ended June 30,		**For the three months ended June 30,**		**For the three mon ended June 30,**	
	2023	**2022**	**2023**	**2022**	**2023**	**20**
Equipment systems	$4,619,887	$10,077,572	$ —	$ —	$ 4,619,887	$10,077
Services	1,255,978	1,931,465	1,778,596	1,096,091	3,034,574	3,027
Construction design-build	414,717	802,874	10,634,280	2,114,447	11,048,997	2,917
Other	134,086	259,054	—	—	134,086	259
Total revenues and other income	$6,424,668	$13,070,965	$12,412,876	$3,210,538	$18,837,544	$16,281
Relative percentage	34 %	80 %	66 %	20 %	100 %	

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

	CEA		**Commercial**		**Total**	
	For the six months ended June 30,		**For the six months ended June 30,**		**For the six mont June 30,**	
	2023	**2022**	**2023**	**2022**	**2023**	
Equipment systems	$ 7,531,711	$27,144,916	$ —	$ —	$ 7,531,711	$27
Services	2,813,153	4,062,139	3,692,074	2,603,923	6,505,227	6
Construction design-build	786,560	802,874	20,468,389	2,114,447	21,254,949	2
Other	311,043	606,072	—	—	311,043	
Total revenues and other income	$11,442,467	$32,616,001	$24,160,463	$4,718,370	$35,602,930	$37
Relative percentage	32 %	87 %	68 %	13 %	100 %	

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

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

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

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

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

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

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

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

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

			March 31, 2023		December 31, 2022			June 30, 2023		December 31, 2022
Contract assets:	**Contract assets:**					**Contract assets:**				
Revenue recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts (contract asset), excluding retainage	Revenue recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts (contract asset), excluding retainage	$	2,795,428	$	2,874,141	Revenue recognized in excess of amounts paid or payable (contract receivables) to the Company on uncompleted contracts (contract asset), excluding retainage	$	6,702,100	$	2,874,141

Retainage included in contract assets due to being conditional on something other than solely passage of time	Retainage included in contract assets due to being conditional on something other than solely passage of time	21,979	130,141	Retainage included in contract assets due to being conditional on something other than solely passage of time	246,317	130,141
Total contract assets	**Total contract assets**	**$ 2,817,407**	**$ 3,004,282**	**Total contract assets**	**$ 6,948,417**	**$ 3,004,282**
		March 31, 2023	**December 31, 2022**		**June 30, 2023**	**December 31, 2022**
Contract liabilities:	**Contract liabilities:**			**Contract liabilities:**		
Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability)	Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability)	$ 2,197,355	$ 1,294,452	Payments received or receivable (contract receivables) in excess of revenue recognized on uncompleted contracts (contract liability)	$ 3,312,396	$ 1,294,452
Retainage included in contract liabilities due to being conditional on something other than solely passage of time	Retainage included in contract liabilities due to being conditional on something other than solely passage of time	216,068	—	Retainage included in contract liabilities due to being conditional on something other than solely passage of time	32,436	—
Total contract liabilities	**Total contract liabilities**	**$ 2,413,423**	**$ 1,294,452**	**Total contract liabilities**	**$ 3,344,832**	**$ 1,294,452**

Trade accounts receivable, net of allowance for doubtful accounts, balances from contracts with customers within the accompanying condensed consolidated balance sheets as of March 31, 2023 June 30, 2023, and December 31, 2022, were $21,069,269 $14,242,229 and $12,466,180, respectively.

Non-trade accounts receivable as of March 31, 2023 June 30, 2023, and December 31, 2022, were $1,000,000 $1,232,917 and $2,914,112, respectively. Non-trade accounts receivables as of June 30, 2023, were comprised of the remaining Indemnified Loss receivable from the majority shareholder of Emerald further detailed in *Note 1 – Organization, Acquisitions, and Liquidity*. Non-trade accounts receivables as of December 31, 2022,was, were comprised of miscellaneous non-trade accounts receivables totaling $514,112 and non-trade accounts receivable related to litigation involving fraudulent wire transactions of $2,400,000. On March 27, 2023, the Company entered into an agreement to settle this litigation and received a cash payment of $2,400,000 on March 27, 2023.

For equipment systems contracts, the Company's predominant policy is to collect deposits from customers at the beginning of the contract and the balance of the contract payment prior to shipping. The Company does, in some cases, collect deposits or retainers as down payments on service contracts. Consumable products orders may be paid for in advance of shipment or for recurring customers with credit, payment terms of 30 days or less may be extended by the Company. Customer payments that have been collected prior to the performance obligation being recognized are recorded as customer deposit liabilities on the balance sheet. When the performance obligation is satisfied and all the criteria for revenue recognition are met, revenue is recognized. In certain situations when the customer has paid the deposit and services have been performed but the customer chooses not to proceed with the contract, the Company is entitled to keep the deposit and recognize revenue.

NOTE 4 – RELATED PARTY TRANSACTIONS

James Lowe, a director of the Company, is an owner of Cloud 9 Support, LLC ("Cloud 9") and Potco LLC ("Potco"). Cloud 9 purchases materials from the Company for use with its customers and Potco purchases equipment from the Company for use in its cultivation facility. Total sales to The table below presents the revenues for Cloud 9 from the Company were $0 and $5,807 during Potco for the three and six months ended March 31, 2023 June 30, 2023, and 2022, respectively. Total sales to 2022:

	Three Months Ended June 30,	Six Months Ended June 30,

	2023	2022	2023	2022
Revenues - Cloud 9	$ 462	$ 5,606	$ 462	$ 11,813
Revenues - Potco	398,712	—	935,164	11,400
Total revenues from related party transactions	**$ 399,174**	**$ 5,606**	**$ 935,626**	**$ 23,213**

The table below presents the accounts receivable for Cloud 9 and Potco from the Company were $479,897 and $11,400 during the three months ended March 31, 2023 for as of June 30, 2023, and 2022, respectively. Outstanding receivables from Cloud 9 as of March 31, 2023 and December 31, 2022 totaled $0 and $3,920 respectively. Outstanding receivables from Potco as of March 31, 2023 and December 31, 2022 totaled $541,850 and $20,174 respectively. :

	June 30, 2023	December 31, 2022
Accounts receivable - Cloud 9	$ —	$ 3,920
Accounts receivable - Potco	188,512	20,174
Total accounts receivable due from related party transactions	**$ 188,512**	**$ 24,094**

NOTE 5 – PREPAID EXPENSES AND OTHER ASSETS

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

		March 31, 2023	December 31, 2022		June 30, 2023	December 31, 2022
Vendor prepayments	Vendor prepayments	$ 3,211,513	$ 2,459,389	Vendor prepayments	$ 2,314,800	$ 2,459,389
Prepaid services and fees	Prepaid services and fees	1,105,792	1,346,430	Prepaid services and fees	885,416	1,346,430
Inventories	Inventories	329,455	320,372	Inventories	300,520	320,372
Other assets	Other assets	38,769	38,769	Other assets	39,818	38,769
Total Prepaid expenses and other assets	**Total Prepaid expenses and other assets**	**$ 4,685,529**	**$ 4,164,960**	**Total Prepaid expenses and other assets**	**$ 3,540,554**	**$ 4,164,960**

NOTE 6 – PROPERTY AND EQUIPMENT, NET

Property and equipment balances are summarized as follows:

		March 31, 2023	December 31, 2022		June 30, 2023	December 31, 2022
Computers and technology equipment	Computers and technology equipment	$ 256,515	$ 232,405	Computers and technology equipment	$ 264,197	$ 232,405
Furniture and fixtures	Furniture and fixtures	243,900	234,389	Furniture and fixtures	321,859	234,389
Leasehold improvements	Leasehold improvements	306,719	306,719	Leasehold improvements	228,760	306,719
Vehicles	Vehicles	452,822	456,797	Vehicles	452,822	456,797
Software	Software	793,944	685,580	Software	874,153	685,580
Other equipment	Other equipment	58,525	58,525	Other equipment	58,526	58,525
Accumulated depreciation	Accumulated depreciation	(745,664)	(667,269)	Accumulated depreciation	(867,409)	(667,269)
Total Property and equipment, net	**Total Property and equipment, net**	**$ 1,366,761**	**$ 1,307,146**	**Total Property and equipment, net**	**$ 1,332,908**	**$ 1,307,146**

Depreciation expense totaled $159,995 and $65,335 for the three months ended March 31, 2023 June 30, 2023, and 2022, respectively, and totaled $94,049 $254,048 and $55,778, $121,113 for the six months ended June 30, 2023, and 2022, respectively.

NOTE 7 – INVESTMENTS

The components of investments as of March 31, 2023 June 30, 2023, and December 31, 2022, are summarized as follows:

Edyza	XS Financial	Total	Edyza	XS Financial	Total

Balances as of December 31, 2022	Balances as of December 31, 2022	$ —	$ 2,559,307	$ 2,559,307	Balances as of December 31, 2022	$ —	$ 2,559,307	$ 2,559,307
Paid-in-kind interest	Paid-in-kind interest	—	12,796	12,796	Paid-in-kind interest	—	25,657	25,657
Balances as of March 31, 2023		**$ —**	**$ 2,572,103**	**$ 2,572,103**				
Balances as of June 30, 2023					**Balances as of June 30, 2023**	**$ —**	**$ 2,584,964**	**$ 2,584,964**

Edyza

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

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

XS Financial

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

NOTE 8 – GOODWILL & INTANGIBLE ASSETS

Goodwill

The Company has recorded goodwill in conjunction with the acquisitions it has completed. The goodwill balances as of March 31, 2023June 30, 2023, and December 31, 2022, were $15,572,050 and $15,572,050, respectively. Goodwill is not amortized. There is no goodwill for income tax purposes. The Company did not record any impairment charges related to goodwill for the three or six months ended March 31, 2023June 30, 2023, and 2022.

Intangible Assets Other Than Goodwill

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

		As of March 31, 2023				As of June 30, 2023		
		Cost	**Accumulated Amortization**	**Net Book Value**		**Cost**	**Accumulated Amortization**	**Net Book Value**
Finite-lived intangible assets:	Finite-lived intangible assets:				Finite-lived intangible assets:			
Customer relationships	Customer relationships	$ 4,212,100	$ (553,450)	$ 3,658,650	Customer relationships	$ 4,212,100	$ (703,885)	$ 3,508,215
Trademarks and trade names	Trademarks and trade names	1,778,000	(396,717)	1,381,283	Trademarks and trade names	1,778,000	(485,617)	1,292,383
Backlog and other	Backlog and other	768,113	(695,670)	72,443	Backlog and other	768,113	(720,499)	47,614
Total finite-lived intangible assets:	Total finite-lived intangible assets:	6,758,213	(1,645,837)	5,112,376	Total finite-lived intangible assets:	6,758,213	(1,910,001)	4,848,212
Indefinite-lived intangible assets:	Indefinite-lived intangible assets:				Indefinite-lived intangible assets:			
Trade name	Trade name	28,291	—	28,291	Trade name	28,291	—	28,291

Total indefinite-lived intangible assets	Total indefinite-lived intangible assets	28,291	—	28,291	Total indefinite-lived intangible assets	28,291	—	28,291
Total intangible assets, net	**Total intangible assets, net**	**$ 6,786,504**	**$ (1,645,837)**	**$ 5,140,667**	**Total intangible assets, net**	**$ 6,786,504**	**$ (1,910,001)**	**$ 4,876,503**

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

Amortization expense for intangible assets totaled $264,165 and $306,225 for the three months ended March 31, 2023June 30, 2023, and 2022, was $310,020respectively, and $162,500, totaled $574,184 and $468,725 for the six months ended June 30, 2023, and 2022, respectively.

The estimated future amortization expense for intangible assets subject to amortization as of March 31, 2023June 30, 2023, is summarized below:

For the years ending December 31,	**For the years ending December 31,**	**Estimated Future Amortization Expense**	**For the years ending December 31,**	**Estimated Future Amortization Expense**
Remainder of 2023	Remainder of 2023	$ 756,005	Remainder of 2023	$ 491,841
2024	2024	959,788	2024	959,788
2025	2025	959,788	2025	959,788
2026	2026	918,205	2026	918,205
2027	2027	693,555	2027	693,555
Thereafter	Thereafter	825,035	Thereafter	825,035
Total estimated future amortization expense	**Total estimated future amortization expense**	**$ 5,112,376**	**Total estimated future amortization expense**	**$ 4,848,212**

NOTE 9 – ACCRUED EXPENSES

Accrued expenses are summarized as follows:

		March 31, 2023	**December 31, 2022**		**June 30, 2023**	**December 31, 2022**
Accrued operating expenses	Accrued operating expenses	$ 1,520,517	$ 515,858	Accrued operating expenses	$ 527,690	$ 515,858
Loss on settlement				Loss on settlement	1,500,000	—
Accrued wages and related expenses	Accrued wages and related expenses	1,697,058	639,614	Accrued wages and related expenses	1,134,304	639,614
Accrued 401(k)	Accrued 401(k)	95,732	262,599	Accrued 401(k)	66,004	262,599
Accrued sales tax payable	Accrued sales tax payable	1,901,948	1,778,890	Accrued sales tax payable	1,955,453	1,778,890
Total accrued expenses	**Total accrued expenses**	**$ 5,215,255**	**$ 3,196,961**	**Total accrued expenses**	**$ 5,183,451**	**$ 3,196,961**

Accrued sales tax payable is comprised of amounts due to various states and Canadian provinces from the year ended 2015 through the three months ended March 31, 2023June 30, 2023.

NOTE 10 – OPERATING LEASE LIABILITIES AND COMMITMENTS AND CONTINGENCIES

The Company has seven eight operating office lease liabilities and one finance office lease liability with an imputed annual interest rate of 8.0%. Five of the leases were assigned to the Company in connection with the acquisitions of 2WR, Emerald, and DVO. The remaining lease terms range from less than a year to 6 years, as of March 31, 2023June 30, 2023. The following is a summary of operating lease liabilities:

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

		June 30, 2023		December 31, 2022
Operating lease liabilities related to right of use assets	$	2,440,569	$	2,645,598
Less current operating lease liabilities		(617,815)		(600,816)
Non-current operating lease liabilities	**$**	**1,822,754**	**$**	**2,044,782**

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

For the years ending December 31,	**For the years ending December 31,**		**Minimum Lease Payments**	**For the years ending December 31,**		**Minimum Lease Payments**
Remainder of 2023	Remainder of 2023	$	858,972	Remainder of 2023	$	417,885
2024	2024		750,076	2024		754,076
2025	2025		573,133	2025		573,133
2026	2026		404,751	2026		404,751
2027	2027		346,812	2027		346,812
Thereafter	Thereafter		335,903	Thereafter		335,903
Total minimum lease payments	Total minimum lease payments		3,269,647	Total minimum lease payments		2,832,560
Less: Amount representing interest	Less: Amount representing interest		(698,195)	Less: Amount representing interest		(391,991)
Net lease obligations	**Net lease obligations**	**$**	**2,571,452**	**Net lease obligations**	**$**	**2,440,569**

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

On August 11, 2023, the Company entered into a settlement agreement (the "Settlement Agreement") with Crest Ventures, LLC ("Crest") and Andrew Telsey to settle all claims in the litigation filed in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. Pursuant to the Settlement Agreement, the Company has agreed to pay $1,500,000 to Crest by September 10, 2023. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of $1,500,000 in accordance with GAAP related to loss contingencies.

NOTE 11 – RISKS AND UNCERTAINTIES

<u>Concentration Risk</u>

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

Customers exceeding 10% of revenue

	Three Months Ended March 31,	**Three Months Ended June 30,**	**Six Months Ended June 30,**

Company Customer Number	Company Customer Number	2023	2022	Company Customer Number	2023	2022	2023	2022
C000001462	C000001462	*	25 %	C000001462	*	*	*	16 %
C000001140	C000001140	*	16 %	C000001140	*	25 %	*	20 %
C000000114		*	11 %					
C000001472		*	11 %					
C000002187	C000002187	43 %	*	C000002187	26 %	*	26 %	*
C000002336		17 %	*					
C000000819				C000000819	*	14 %	*	*
C000002393				C000002393	14 %	*	*	*
C000002463				C000002463	*	*	12 %	*
*Amounts less than 10%	*Amounts less than 10%			*Amounts less than 10%				

Customers exceeding 10% of accounts receivable

Company Customer Number	Company Customer Number	As of March 31, 2023	As of December 31, 2022	Company Customer Number	June 30, 2023	December 31, 2022
C000002151	C000002151	*	10 %	C000002151	*	10 %
C000002187	C000002187	41 %	24 %	C000002187	37 %	24 %
C000002336		14 %	*			
*Amounts less than 10%	*Amounts less than 10%			*Amounts less than 10%		

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

Vendors exceeding 10% of purchases

Company Vendor Number	Company Vendor Number	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	Company Vendor Number	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022
V000001029	V000001029	*	26 %	V000001029	*	23 %	*	25 %
V000000453	V000000453	*	19 %	V000000453	*	*	*	12 %
V000002275	V000002275	19 %	*	V000002275	*	*	11 %	*
V000001372		*	11 %					
V000001280				V000001280	*	19 %	*	*
*Amounts less than 10%	*Amounts less than 10%			*Amounts less than 10%				

Vendors exceeding 10% of accounts payable

Company Vendor Number	As of March 31, 2023	As of December 31, 2022
V000001910	*	11 %
V000002275	20 %	*
*Amounts less than 10%		

Company Vendor Number	June 30, 2023	December 31, 2022
V000001910	*	11 %
V000002275	21 %	*

*Amounts less than 10%

Foreign Exchange Risk

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

NOTE 12 – STOCK-BASED COMPENSATION

Stock-based compensation expense for the three months ended March 31, 2023 and 2022 was $479,641 and $882,000, respectively, based Based on the vesting schedule of the grants of restricted stock grants units ("RSU" or "RSUs") and options. During options, stock-based compensation expense totaled $622,547 and $882,000 for the three months ended March 31, 2023 June 30, 2023, 103,572 shares were issued to employees and directors 2022, respectively, and totaled $1,102,188 and $1,764,000 for grants that vested December 31, 2022. the six months ended June 30, 2023, and 2022, respectively.

The Company has adopted equity incentive plans (" the 2021 Omnibus Stock Incentive Plans" Plan, as amended (the "Omnibus Incentive Plan"), which provide provides for the issuance of incentive stock options, stock grants of RSUs, and stock-based awards to employees, directors, and consultants of the Company to reward and attract employees and compensate the Company's Board of Directors (the "Board") and vendors when applicable. The Omnibus Incentive Plans are Plan is administered by the Company's Board. Stock grants Grants of RSUs under the Omnibus Incentive Plans Plan are valued at the price of the stock on the date of grant. The fair value of the options is calculated using the Black-Scholes pricing model based on the estimated market value of the underlying common stock at the valuation measurement date, the remaining contractual term of the options, risk-free interest rate and expected volatility of the price of the underlying common stock of 100%. There is a moderate degree of subjectivity involved when estimating the value of stock options with the Black-Scholes option pricing model as the assumptions used are moderately judgmental. Stock grants Grants of RSUs and stock options are sometimes offered as part of an employment offer package, to ensure continuity of service or as a reward for performance. Stock grants Grants of RSUs and stock options typically require a 1 to 3 year 1-to-3-year period of continued employment or service performance before the stock grant of RSUs or stock option vests. options vest. No cash flow effects are anticipated for grants of RSUs or stock grants. options.

The following schedule shows stock grant grants of RSU activity for the three six months ended March 31, 2023 June 30, 2023:

	Number of Shares
Grants of RSUs unvested as of December 31, 2022	**494,859**
Grants awarded of RSUs	238,071 524,829
Forfeiture/cancelled	(3,533) (6,733)
Grants of RSUs vested and issued	(103,572) (189,592)
Grants of RSUs unvested as of March 31, 2023 June 30, 2023	**625,825 823,363**

The following table summarizes stock grant vesting periods:

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

As of June 30, 2023, the Company has $2.0 million in unrecognized stock-based compensation expense related to these grants of RSUs.

The following schedule shows stock option activity for the three six months ended March 31, 2023 June 30, 2023.

Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price

Stock options outstanding as of December 31, 2022	**Stock options outstanding as of December 31, 2022**	**669,388**	**7.9**	**$**	**6.77**	**Stock options outstanding as of December 31, 2022**	**669,388**	**7.9**	**$**	**6.77**
Issued	Issued	—	0	$	—	Issued	—	0	$	—
Forfeited	Forfeited	(2,803)	0	$	9.39	Forfeited	(2,803)	0	$	9.39
Exercised	Exercised	—	0	$	—	Exercised	—	0	$	—
Stock options outstanding as of March 31, 2023		**666,585**	**7.6**	**$**	**6.77**					
Stock options exercisable as of March 31, 2023		**618,651**	**6.5**	**$**	**6.30**					
Stock options outstanding as of June 30, 2023						**Stock options outstanding as of June 30, 2023**	**666,585**	**7.4**	**$**	**6.77**
Stock options exercisable as of June 30, 2023						**Stock options exercisable as of June 30, 2023**	**618,651**	**6.3**	**$**	**6.30**

The following table summarizes As of June 30, 2023, the Company has $0.1 million in unrecognized stock-based compensation expense related to these stock option vesting periods under the Incentive Plans:

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

options. The aggregate intrinsic value of the options outstanding and exercisable at March 31, 2023 as of June 30, 2023, is $0.

NOTE 13 – STOCKHOLDERS' EQUITY

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

During the three six months ended March 31, 2023 June 30, 2023, the Company did not repurchase shares of common stock. During the three six months ended March 31, 2022 June 30, 2022, the Company repurchased 419,088 shares of common stock at an average price per share of $9.02, for a total price of $3.8 million under this program. As of March 31, 2023 June 30, 2023, we have $1.4 million remaining under the repurchase program.

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

NOTE 14 – WARRANTS

The following table shows warrant activity for the three six months ended March 31, 2023 June 30, 2023.

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

	Number of Shares		Weighted Average Exercise Price
Warrants outstanding as of December 31, 2022	311,499	$	12.32

Exercised	—	$	—
Expired	(1,000)	$	6.00
Warrants outstanding as of June 30, 2023	**310,499**	**$**	**12.34**
Warrants exercisable as of June 30, 2023	**310,499**	**$**	**12.34**

The weighted-average life of the warrants is 1.6. 2.2 years. The aggregate intrinsic value of the warrants outstanding and exercisable as of March 31, 2023 June 30, 2023, is $0.

NOTE 15 – INCOME TAXES

The Company has experienced cumulative losses for both book and tax purposes since inception. The potential future recovery of any tax assets that the Company may be entitled to due to these accumulated losses is uncertain and any tax assets that that the Company may be entitled to have been fully reserved based on management's current estimates. Management intends to continue maintaining a full valuation allowance on the Company's deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances.The allowances. The deferred income tax benefit for the three and six months ended March 31, 2023 June 30, 2023, and 2022 relates to the reduction in the deferred tax liability associated with the amortization of the intangible assets from the acquisitions of the 2WR Entities and Emerald. The Company records state income taxes paid during the year within the *Other income (expense)* financial statement line item.

NOTE 16 – SUBSEQUENT EVENTS

None. On August 11, 2023, the Company entered into the Settlement Agreement with Crest and Andrew Telsey to settle all claims in the litigation filed in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. Pursuant to the Settlement Agreement, the Company has agreed to pay $1,500,000 to Crest by September 10, 2023. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of $1,500,000 in accordance with GAAP related to loss contingencies.

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

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

OVERVIEW AND HISTORY

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

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

RESULTS OF OPERATIONS

Comparison of Results of Operations for the three months ended March 31, 2023 June 30, 2023 and 2022

During the three months ended March 31, 2023 June 30, 2023, we generated revenues of $16.8 million $18.8 million compared to revenues of $21.1 million $16.3 million during the three months ended March 31, 2022 June 30, 2022, a decrease an increase of $4.3 million $2.6 million, or 20% 16%. This decrease increase in revenues is the net result of the following changes in individual revenue components:

- Equipment systems revenue decreased $14.2 million $5.5 million due to negative market conditions in the cannabis sector and a reduction in capital equipment spending by customers; and
- Services revenue decreased $0.2 million; was flat, which was the result of a decrease in revenues in our existing business due to negative market conditions in the cannabis sector offset by an increase in revenues from the DVO acquisition;
- Construction design-build revenue increased $10.2 million $8.1 million, primarily due to significant organic growth of our construction design-build revenue in addition to the Emerald acquisition being included in our operating results for an additional month in 2023 as a result of the acquisition of Emerald; compared to 2022; and
- Other revenues decreased $0.2 million $0.1 million.

During the three months ended March 31, 2023 June 30, 2023, cost of revenues was $13.9 million $16.0 million compared to $16.2 million $12.8 million during the three months ended March 31, 2022 June 30, 2022, a decrease an increase of $2.2 million $3.2 million, or 14% 25%. This decrease increase is directly attributable to the overall decrease increase in revenues indicated above and was further impacted by the change in individual revenue components.

Gross profit was $2.8 million (17% $2.9 million (15% of revenues) during the three months ended March 31, 2023 June 30, 2023, compared to $4.9 million (23% $3.5 million (22% of revenue) during the three months ended March 31, 2022 June 30, 2022. Gross The overall gross profit as a percentage of revenues decreased primarily due to a decrease in higher margin equipment systems revenue as well as an increase in lower margin construction design-build revenue. The decrease in equipment systems gross profit during the three months ended June 30, 2023 as compared to the three months ended June 30, 2022 is not expected to continue. The decrease in services gross profit for the three months ended June 30, 2023 as compared to the three months ended June 30, 2022 is primarily attributable to better time tracking on service projects due to system upgrades implemented in the first quarter of 2023.

Operating expenses increased by $2.1 million $1.3 million, or 37% 25%, to $7.9 million $6.8 million for the three months ended March 31, 2023 June 30, 2023, compared to $5.8 million $5.4 million for the three months ended March 31, 2022 June 30, 2022. This overall increase in operating expenses was the result of the net effects of the following:

- a $2.4 million $1.6 million increase in general and administrative operating expenses due to (i) increases in salary and personnel related costs attributable to the acquisitions of the Emerald and DVO entities, (ii) increased legal expenses and (iii) implementation of an incentive retention plan in 2023 that, at its inception, was expected to result in total expense of $1.3 million in 2023

($0.4 million in the first quarter, $0.2 million in the second quarter, $0.3 million in the third quarter and $0.3 million in the forth quarter); and

- a $0.3 million decrease in stock-based compensation expense, due to a reduction in the number of employees receiving stock-based compensation.

Non-operating expense was $1.6 million for the three months ended June 30, 2023, compared to non-operating income of $0.1 million for the three months ended June 30, 2022, a change of $1.7 million. This was primarily due to a $1.5 million loss related to the settlement of the litigation with Crest Ventures, LLC that was recorded in the three months ended June 30, 2023, in accordance with accounting principles generally accepted in the United States of America ("GAAP") related to loss contingencies.

Deferred income tax benefit decreased by $22.5 thousand due to amortization of the deferred tax liabilities from the acquisitions of the 2WR Entities and Emerald.

As a result of the above, we incurred a net loss of $5.4 million for the three months ended June 30, 2023, or a net loss per share of $0.50, compared to a net loss per share of $0.17 for the three months ended June 30, 2022.

Comparison of Results of Operations for the six months ended June 30, 2023, and 2022

During the six months ended June 30, 2023, we generated revenues of $35.6 million compared to revenues of $37.3 million during the six months ended June 30, 2022, a decrease of $1.7 million, or 5%. This decrease in revenues is the net result of the following changes in individual revenue components:

- Equipment systems revenue decreased $19.6 million due to negative market conditions in the cannabis sector and a reduction in capital equipment spending by customers;
- Services revenue decreased $0.2 million which was the net result of a decrease in our existing business due to negative market conditions in the cannabis sector offset by revenues from the DVO acquisition;
- Construction design-build revenue increased $18.3 million, due to significant organic growth of our construction design-build revenue in addition to the Emerald acquisition being included in our operating results for six months in 2023 and only two months in 2022; and
- Other revenues decreased $0.3 million.

During the six months ended June 30, 2023, cost of revenues was $29.9 million compared to $28.9 million during the six months ended June 30, 2022, an increase of $1.0 million, or 3%. This increase is directly attributable to the change in individual revenue components driven by a decrease in higher margin equipment systems revenue as well as an increase in lower margin construction design-build revenue.

Gross profit was $5.7 million (16% of revenues) during the six months ended June 30, 2023, compared to $8.4 million (23% of revenue) during the six months ended June 30, 2022. The overall gross profit as a percentage of revenues decreased primarily due to a decrease in higher margin equipment systems revenue as well as an increase in lower margin construction design-build revenue. The decrease in equipment systems gross profit during the six months ended June 30, 2023 as compared to the six months ended June 30, 2022 is not expected to continue. The decrease in services gross profit for the six months ended June 30, 2023 as compared to the six months ended June 30, 2022 is primarily attributable to better time tracking on service projects due to system upgrades implemented in the first quarter of 2023.

Operating expenses increased by $3.5 million, or 31%, to $14.6 million for the six months ended June 30, 2023, compared to $11.2 million for the six months ended June 30, 2022. This overall increase in operating expenses was the result of the net effects of the following:

- a $4.0 million increase in general and administrative operating expenses due to (i) increases in salary and personnel related costs attributable to the acquisitions of the DVO and Emerald entities, (ii) increased legal expenses and (iii) implementation of an incentive retention plan in 2023; 2023 that, at its inception, was expected to result in total expense of $1.3 million in 2023 ($0.4 million in the first quarter, $0.2 million in the second quarter, $0.3 million in the third quarter and $0.3 million in the fourth quarter);
- a $0.4 million $0.7 million decrease in stock-based compensation expense, due to a reduction in the number of employees receiving stock-based compensation; and
- a $0.1 million increase in intangible asset amortization due to increased intangibles associated with the acquisitions of Emerald and DVO.

Non-operating expense was $0.2 million $1.8 million for the three six months ended March 31, 2023 June 30, 2023, compared to non-operating income of $0.1 million $0.2 million for the three six months ended March 31, 2022 June 30, 2022, an increase a change of $0.2 million $1.9 million. This was primarily due to a $0.2 million loss expense recognized from the remeasurement of contingent consideration from the Emerald acquisition. acquisition and a $1.5 million loss related to the settlement of the litigation with Crest Ventures, LLC in the six months ended June 30, 2023 in accordance with GAAP related to loss contingencies.

Deferred income tax benefit decreased by $0.04 million million $0.1 million due to amortization of the deferred tax liabilities from the acquisitions of the 2WR Entities and Emerald.

As a result of the above, we incurred a net loss of $5.1 million $10.6 million for the three six months ended March 31, 2023 June 30, 2023, or a net loss per share of $0.48, $0.97, compared to a net loss per share of $0.07 $0.23 for the three six months ended March 31, 2022 June 30, 2022.

NON-GAAP FINANCIAL MEASURES

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

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

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

		Three Months Ended March 31,			Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022		2023	2022	2023	2022
Net loss		**$ (5,144,649)**	**$ (696,217)**					
Net loss (GAAP)				**Net loss (GAAP)**	**$ (5,443,333)**	**$ (1,739,304)**	**$ (10,587,982)**	**$ (2,435,521)**
Interest expense	Interest expense	73,216	7,658	Interest expense	44,989	7,658	118,205	15,317
Interest income	Interest income	(73,131)	(79,852)	Interest income	(75,061)	(47,275)	(148,191)	(127,126)
Income tax benefit		(65,132)	(108,060)					
Federal and state income tax (benefit) expense				Federal and state income tax (benefit) expense	56,799	(76,453)	(8,332)	(184,512)
Depreciation and amortization	Depreciation and amortization	404,069	218,278	Depreciation and amortization	424,160	371,557	828,232	589,835
EBITDA		**(4,805,627)**	**(658,193)**					
EBITDA (non-GAAP)				**EBITDA (non-GAAP)**	**(4,992,446)**	**(1,483,817)**	**$ (9,798,068)**	**$ (2,142,007)**
Non-recurring legal fees	Non-recurring legal fees	216,739	161,546	Non-recurring legal fees	267,873	57,382	484,611	218,929
Contingent consideration - change in fair value	Contingent consideration - change in fair value	160,232	—	Contingent consideration - change in fair value	—	—	160,232	—
Contingent consideration - DVO acquisition	Contingent consideration - DVO acquisition	46,267	—	Contingent consideration - DVO acquisition	80,431	—	126,698	—
Reduction in force costs				Reduction in force costs	263,003	—	263,003	—
Loss on settlement				Loss on settlement	1,500,000	—	1,500,000	—
Retention incentive	Retention incentive	450,000	—	Retention incentive	192,000	—	642,000	—
Stock-based compensation	Stock-based compensation	479,641	882,000	Stock-based compensation	622,547	882,000	1,102,188	1,764,000

Transaction costs	Transaction costs	35,078	55,225	Transaction costs	26,859	15,535	61,938	70,760
Adjusted EBITDA		**$ (3,417,670)**	**$ 440,578**					
Adjusted EBITDA (non-GAAP)				**Adjusted EBITDA (non-GAAP)**	**$ (2,039,733)**	**$ (528,900)**	**$ (5,457,398)**	**$ (88,318)**

BACKLOG

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

Backlog for each of our revenue categories as of March 31, 2023 June 30, 2023, and December 31, 2022, is reflected in the following tables:

		March 31, 2023					**June 30, 2023**			
		CEA	**Commercial**	**Total**	**Relative Percentage**		**CEA**	**Commercial**	**Total**	**Relative Percentage**
		(in millions)					**(in millions)**			
Equipment systems	Equipment systems	$ 5	$ —	$ 5	5 %	Equipment systems	$ 5	$ —	$ 5	6 %
Services	Services	2	2	4	4 %	Services	1	3	4	5 %
Construction design-build (1)	Construction design-build (1)	67	29	96	91 %	Construction design-build (1)	48	22	70	89 %
Total backlog	Total backlog	$ 74	$ 31	$ 105	100 %	Total backlog	$54	$ 25	$79	100 %
Relative percentage	Relative percentage	70 %	30 %	100 %		Relative percentage	68 %	32 %	100 %	
Note: Percentages may not add up due to rounding.	Note: Percentages may not add up due to rounding.					Note: Percentages may not add up due to rounding.				

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

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

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

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

Note: Percentages may not add up due to rounding.

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

Note: Percentages may not add up due to rounding.

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

Historically, the majority of our Equipment Systems and Services backlog has been retired and converted into revenue within two quarters. At March 31, 2023 As of June 30, 2023, we expected approximately 40% 50% of our Construction design-build backlog to be completed in the next 12 months. At March 31, 2023 As of June 30, 2023, and December 31, 2022, one customer accounted for 40% 53% and 46% of total backlog, respectively.

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

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

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2023 June 30, 2023, we had working capital of $6.0 million $2.7 million, compared to working capital of $10.3 million as of December 31, 2022, a decrease of $4.3 million $7.6 million. This decrease in working capital was primarily due to a decrease in cash (which is further detailed below) and the net effects of an increase in accounts payable, and accrued expenses, and contract liabilities of $7.1 million $12.6 million, a decrease in cash and prepaid expenses and other assets of $4.1 million, partially offset by an an increase of accounts receivable, net and contract receivables of $6.8 million $4.0 million, and a decrease in customer deposits, contingent consideration, and promissory note of $5.1 million. Due The increase in accounts payable is partially related to costs incurred on construction design-build projects near the acquisition end of Emerald the second quarter of 2023. Certain of these contracts were tied to a major customer where we had previously agreed upon project billing timelines and we were unable to bill for these projects until after June 30, 2023. This resulted in 2022, the Company includes an increase in contract receivables as of June 30, 2023. We are continually evaluating alternatives to increase our working capital contract receivables and liabilities related to construction projects. These construction working capital balances are described in further detail in our consolidated financial statements, including the accompanying notes. securing non-dilutive debt financing arrangements.

As of March 31, 2023 June 30, 2023, we had cash of $7.3 million $8.6 million, which represented a decrease of $4.7 million $3.4 million from December 31, 2022, due to the following changes during the three six months ended March 31, 2023 June 30, 2023:

- Net cash used in operating activities was $4.3 million $0.7 million. This use of cash is the net effect of the net loss of $5.1 million $10.6 million, offset by non-cash expenses of $1.3 million, $3.9 million and a reduction cash provided by the net changes in net operating assets and liabilities of $0.4 million $6.0 million. The $0.4 million reduction See the condensed consolidated statements of cash flows for further details on the non-cash expenses and net changes in net operating assets and liabilities is due to the net effects of a $0.2 million decrease in customer deposits, a $7.1 million increase in accounts payable and accrued expenses, a $0.3 million decrease in prepayments and other assets, and a $6.8 million increase in accounts receivable. Accounts receivable increased from the balance as of December 31, 2022 primarily due to an increase in receivables from our major customer. This customer is a Fortune 500 company and is in the process of transitioning their accounts payable processing to an offshoring system. We are working directly with this customer to ensure that all of our invoices are being properly processed and will be paid on a timely basis going forward. liabilities;
- Net cash used in investing activities was $0.1 million $0.2 million, primarily from the acquisition of property, plant and equipment. We have no material commitments for capital expenditures as of March 31, 2023. June 30, 2023; and
- Net cash used in financing activities was $0.3 million $2.6 million, primarily due to payments made on the payment of promissory note related to the contingent consideration from our acquisitions. DVO acquisition.

INFLATION

Inflation has resulted in increased costs for our customers. In addition, the U.S. Government has responded to inflation by raising interest rates, which has increased the cost of capital for our customers. We believe this has resulted in some customers delaying projects, reducing the scope of projects or potentially canceling projects, as well as increased costs of our operations, which has negatively impacted the results of our operations during the quarter three and six month periods ended March 31, 2023 June 30, 2023. We maintain strategies to mitigate the impact of higher material, energy and commodity costs, including cost reduction, alternative sourcing strategies, and passing along cost increase to customers, which may offset only a portion of the adverse impact.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion about the Company's significant accounting policies, refer to *Note 2 — "Summary - Summary of Significant Accounting Policies"*, in the Company's consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022. During the three six months ended March 31, 2023 June 30, 2023, there were no material changes made to the Company's significant accounting policies.

OFF-BALANCE SHEET ARRANGEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

ITEM 4. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

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

Based on this evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of March 31, 2023 June 30, 2023, at reasonable assurance levels.

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

Inherent Limitations

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three six months ended March 31, 2023 June 30, 2023, which were identified in conjunction with management's evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

As is more fully described in *Item 5 - Other Information*, below, on August 11, 2023, the Company entered into a settlement agreement and mutual release (the "Settlement Agreement") with Crest Ventures, LLC and Andrew Telsey to settle all claims in the litigation filed in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. Pursuant to the Settlement Agreement, the Company has agreed to pay $1,500,000 to Crest Ventures, LLC by September 10, 2023. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of $1,500,000 in accordance with GAAP related to loss contingencies.

ITEM 1A. RISK FACTORS

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

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

Stock Repurchase Program

The Company's Board has authorized the Company to repurchase common stock through a variety of methods, including open market repurchases, purchases by contract (including, without limitation, 10b5-1 and 10b-18 plans), and/or privately negotiated transactions. transactions (the "Program"). The amount, timing, or prices of repurchases, may vary based on market conditions and other factors. The Program does not have an expiration date and can be modified or terminated by the Board at any time. Approved transactions related to the Program are as follows:

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

Since inception of the stock repurchase programs, Program, the Company has repurchased 1.1 million shares at an average price per share of $8.25 for a total of $9.1 million.

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

During the three and six months ended March 31, 2023June 30, 2023, there were no purchases by us of our common stock.

Unregistered Shares Issued in Connection with Acquisitions

During the three months ended, March 31, 2023June 30, 2023, we issued 64,224the following securities as contingent consideration in connection with acquisition agreements that were not registered under the Securities Act:

- 89,966 shares at a price per share of $2.56, 181,346 shares at a price per share of $1.27 as payment for contingent consideration associated with the 2WR acquisition;
- 16,077 shares at a price per share of $4.89, 96,865 shares at a price per share of $2.94, and 102,995 shares at a price per share of $2.99 as payment for contingent consideration associated with the 2WR acquisition. Emerald acquisition; and

On October 31, 2022, the Company issued 271,875• 31,419 shares of the Company's common stock at a price per share of $4.06$2.56 and 63,332 shares at a price per share of $1.27 as payment for a total value of $1.1 million as part of the Initial Purchase Price ofcontingent consideration associated with the DVO Acquisition as acquisition.

Details surrounding the acquisitions referenced above are more fully described in Note 1 to the Condensed Consolidated Financial Statements.

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

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

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not Applicable.

ITEM 5. OTHER INFORMATION

None. As previously disclosed in our annual reports on Form 10-K, the Company was sued on July 29, 2021, by Crest Ventures, LLC ("Crest") in a breach of contract case in the District Court for Arapahoe County, Colorado, Case No. 2021CV31301. The allegations in the action are based on a claim that Crest is entitled to commission compensation on the February 2021 uplisting of our common stock to the Nasdaq Capital Market (the "Nasdaq"). The Plaintiff claims it is entitled to approximately $4.0 million in commissions, plus interest, legal fees and other damages. The Company joined as a third-party defendant, Andrew Telsey ("Telsey"), for breach of fiduciary duty. The Company also filed counter-claims against Crest and Telsey for declaratory judgment that the finder's fee agreement was void as a matter of law. The Company contends that Telsey was the Company's counsel at the time and Telsey claims he was a member of Crest. Initially, the Company had entered into a finder's fee agreement with Crest for a potential merger transaction. Crest and Telsey claim the finder's fee agreement also applies to the introduction to the investment bank that assisted the Company on the uplisting onto the Nasdaq. On Friday, August 11, 2023, the parties entered a settlement agreement (the "Crest Settlement Agreement") to settle all claims associated with the litigation in exchange for a one-time payment by the Company to Crest of $1,500,000 by September 10, 2023. Throughout the case development, the parties had not had any productive settlement negotiations; however, as often occurs as the parties near trial, Crest and Telsey made a settlement offer in mid-July that recently evolved into productive negotiations. Our management had concluded that although unlikely, if Crest were to prevail in their claims, there would be adverse ancillary consequences to our business and that it was prudent to settle to avoid such a possibility, especially considering the time, energy and expense that would be associated with pursuing the case through trial. Further, as part of the Crest Settlement Agreement, Crest and Telsey have admitted that the finder's fee agreement does not, and did not, apply to the introduction to the investment bank that assisted the Company on the uplisting onto the Nasdaq. The Company has not made any admission of liability or wrongdoing. Upon the payment of the settlement proceeds, the parties will enter into a motion to file with the court to dismiss the litigation with prejudice. A copy of the Crest Settlement Agreement is filed as Exhibit 10.4 to this report and is incorporated herein by reference. This description of the Crest Settlement Agreement does not purport to be a complete description and is qualified in its entirety by reference to the full text of the Crest Settlement Agreement. In connection with this settlement, the Company recorded a loss in the second quarter of 2023 of $1,500,000 in accordance with GAAP related to loss contingencies.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
3.1	Amended and Restated Certificate of Incorporation of urban-gro, Inc. (incorporated by reference to Exhibit 3.3 to Form 8-K filed October 30, 2020).
3.2	Certificate of Amendment to Certificate of Incorporation Incorporate of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 5, 2021 June 21, 2023).
3.3 3.2	Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.4 to Form 8-K filed October 30, 2020).
3.4 3.3	Amendment No. 1 to Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed January 12, 2021).
3.4	Amendment No. 2 to Bylaws of urban-gro, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed June 21, 2023).
10.1	Employment 1st Amendment to the Company's 2021 Stock Incentive Plan and original text of the Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 21, 2023).
10.2	Newly amended form of restricted stock unit grant notice (filed herewith).
10.3	Newly amended form restricted stock unit award agreement (filed herewith).
10.4	Settlement Agreement and Mutual Release by and between among urban-gro, Inc., Crest Ventures, LLC, and Jason T. Archer, dated January 12, 2023 Andrew Telsey (filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Schema Document
101.CAL	Inline XBRL Calculation Linkbase Document
101.DEF	Inline XBRL Definition Linkbase Document
101.LAB	Inline XBRL Label Linkbase Document
101.PRE	Inline XBRL Presentation Linkbase Document
104	Cover Page Interactive Data File (Embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 10, 2023 August 14, 2023.

URBAN-GRO, INC.

By: */s/ Bradley Nattrass*

Bradley Nattrass

Chairperson of the Board of Directors and Chief Executive Officer

(Principal Executive Officer)

By: */s/ Richard Akright*

Richard A. Akright

Chief Financial Officer

(Principal Financial Officer)

(Principal Accounting Officer)

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Exhibit 10.2

URBAN-GRO, INC.

2021 OMNIBUS STOCK INCENTIVE PLAN

RESTRICTED STOCK UNIT AWARD GRANT NOTICE

Participant Name: **[ENTER PARTICIPANT'S NAME]**

Company: urban-gro, Inc., a Delaware corporation

Notice: A summary of the terms of your grant of Restricted Stock Units ("RSU") is set out in this notice (the "Grant Notice") but subject always to the terms of the urban-gro, Inc. 2021 Omnibus Stock Incentive Plan (the "Plan") and the Restricted Stock Unit Award Agreement (the "Award Agreement"). In the event of any inconsistency between the terms of this Grant Notice, the terms of the Plan and the Award Agreement, the terms of the Plan and the Award Agreement shall prevail. Any capitalized terms not defined herein shall have the meanings given to such terms in the Plan.

Type of Award: Restricted Stock Unit (RSU) Award

Number of RSUs Awarded: [ENTER NUMBER OF RSUS AWARDED]

Grant Date: **[ENTER DATE]**

Vesting Schedule: RSUs granted hereunder will vest in accordance with the following schedule, provided that you remain in Continuous Service through each vesting date:

- **[ENTER VESTING TERMS]**

In the event of a Corporate Transaction, all unvested RSUs will automatically vest in full immediately prior to the consummation of the Corporate Transaction.

Payment: The Company shall make payment for each RSU that vests hereunder as soon as administratively practicable, and in all events within ten (10) days following, the date such RSU becomes vested. Payment shall be made (i) by distributing a number of Shares of Common Stock equal to the number of vested RSUs for which payment is due, or (ii) through payment of cash equal to the Fair Market Value of the number of shares of Common Stock that would otherwise be distributable as payment (with such Fair Market Value determined as of the date on which the Restricted Stock Units vested), or (iii) through any combination thereof, as determined by the Administrator in its sole discretion.

No Stockholder Rights You have no stockholder rights with respect to the RSUs. If Shares of Common Stock are paid to you in settlement of vested RSUs, you shall have full stockholder rights with respect such Shares once they have been issued to you.

Acceptance: You acknowledge receipt of, and understand and agree to, this Grant Notice, the Award Agreement and the Plan. You further acknowledge that as of the Grant Date, this Grant Notice, the Award Agreement and the Plan set forth the entire understanding between you and the Company or any Related Entity regarding the RSUs awarded to you hereunder and supersede all prior oral and written Award Agreements on the subject.

IN WITNESS WHEREOF, the Company and the Participant have duly executed and delivered this Grant Notice as of the Grant Date.

URBAN-GRO, INC. PARTICIPANT

By: ____________________________ ____________________________

Print Name:______________________

Title:__________________________ Address: ___________________

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Attachments:

1. Restricted Stock Unit Award Agreement
2. 2021 Omnibus Stock Incentive Plan

Exhibit 10.3

URBAN-GRO, INC.
Restricted Stock Unit Award Agreement

Pursuant to the Restricted Stock Unit Award Grant Notice (the "Grant Notice") and this Restricted Stock Unit Award Agreement (this "Award Agreement"), urban-gro, Inc. (the "Company") has granted the Participant as identified in the Grant Notice the number of Restricted Stock Units indicated in the Grant Notice (the "RSUs") under the Company's 2021 Omnibus Stock Incentive Plan (the "Plan"). Capitalized terms not defined in this Award Agreement but defined in the Plan or the Grant Notice will have the same definitions as in the Plan or the Grant Notice, respectively.

1. Vesting Schedule and Forfeiture. Subject to the provisions of Section 2 below and the Plan, the RSUs will vest as provided in the Participant's Grant Notice. Except to the extent vesting accelerates pursuant to the terms of the Plan, the Grant Notice, or Section 2 below, any unvested RSUs shall be automatically forfeited upon the termination of Participant's Continuous Service. Upon forfeiture, Participant shall have no further rights with respect to such forfeited RSUs.

2. Acceleration of Vesting upon a Corporate Transaction. In the event of a Corporate Transaction, all unvested and outstanding RSUs will automatically vest in full immediately prior to the consummation of the Corporate Transaction.

3. Payment. Payment in respect of vested Restricted Stock Units shall be made at the time(s) and in the form(s) set forth in the Grant Notice.

4. No Assignment or Transfer of RSUs. Restricted Stock Units (and related rights) may not be sold, assigned, transferred by gift or otherwise, pledged, hypothecated, or otherwise disposed of, by operation of law or otherwise. The RSUs shall be forfeited if Participant violates or attempts to violate these transfer restrictions.

5. Tax Treatment; Section 409A. Participant may incur tax liability as a result of the receipt of the Restricted Stock Units and payments thereunder. Participant should consult with Participant's own tax adviser for tax advice. The Restricted Stock Units granted hereunder are intended to comply with or be exempt from the requirements of section 409A of the Internal Revenue Code, and the Grant Notice and this Award Agreement shall be interpreted and administered in a manner consistent with such intent. Participant shall be solely responsible and liable for the satisfaction of all taxes and penalties that may be imposed on Participant in connection with the Restricted Stock Units granted hereunder (including any taxes and penalties under Section 409A of the Code), and neither the Company nor any Related Entity shall have any obligation to indemnify or otherwise hold Participant harmless from any or all of such taxes or penalties. Participant acknowledges that the Administrator, in the exercise of its sole discretion and without Participant's consent, may amend or modify the Grant Notice or this Award Agreement in any manner, and delay the payment of any amounts hereunder, to the minimum extent necessary to satisfy the requirements of Section 409A of the Code. The Company will provide Participant with notice of any such amendment or modification. This Section does not, and shall not be construed so as to, create any obligation on the part of the Company to adopt any such amendments or to take any other actions or to indemnify Participant for any failure to do so.

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6. Tax Withholding. Participant shall make appropriate arrangements with the Company to provide for payment of any and all Tax Obligations required by law to be withheld in respect of the Restricted Stock Units. Such arrangements may include, but are not limited to, the payment of cash directly to the Company, withholding by the Company from other cash payments of any kind otherwise due to Participant, or Share withholding as described below. To the extent tax withholding is required, Participant may elect to satisfy the minimum statutory withholding Tax Obligations, in whole or in part, (i) by having the Company withhold Shares otherwise issuable to Participant, or (ii) by delivering to the Company shares of Common Stock already owned by Participant. The Shares delivered or withheld shall have an aggregate Fair Market Value not in excess of the minimum statutory total withholding Tax Obligations. In addition, to the extent provided by the Plan, Participant may elect to have the Company perform additional voluntary tax withholding through the withholding or delivery of Shares up to the maximum statutory tax rates in Participant's applicable jurisdictions. The Fair Market Value of the Shares used for tax withholding purposes shall be determined by the Company as of the date on which taxation occurs. Shares used for tax withholding purposes must be vested and cannot be subject to any repurchase, forfeiture, or other similar requirements. Any election to withhold or deliver Shares shall be irrevocable, made in writing, signed by Participant, and shall be subject to any restrictions or limitations that the Administrator, in its sole discretion, deems appropriate.

7. Other Employee Benefits. Except as specifically provided otherwise in any relevant employee benefit plan, program, or arrangement, the Restricted Stock Units evidenced hereby are not part of normal or expected compensation for purposes of calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments or benefits.

8. Refusal to Transfer. The Company shall not be required to transfer on its books any Shares of Common Stock of the Company which shall have been transferred in violation of any of the provisions set forth in this Award Agreement.

9. No Employment or Service Rights. This Award Agreement is not an employment, consulting, or other services contract and nothing in this Award Agreement shall confer upon the Participant any right to continued employment with or other service to the Company or any Subsidiary, as the case may be, nor shall it interfere in any way with the right of the Company or any Subsidiary to terminate the employment or other service of the Participant at any time.

10. Governing Plan Document. The RSUs granted hereunder are subject to all the provisions of the Plan, the provisions of which are hereby incorporated by reference herein, and is further subject to all interpretations, amendments, rules and regulations which may from time to time be promulgated and adopted pursuant to the Plan. In the event of any conflict between the provisions of this Award Agreement and those of the Plan, the provisions of the Plan shall control.

11. Acknowledgments. No waiver of any breach of any provision of this Award Agreement by the Company shall be construed to be a waiver of any succeeding breach or as a modification of such provision.

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12. Electronic Delivery; Data Privacy. By executing the Grant Notice, the Participant expressly acknowledges that Participant is aware of and consents to the provisions of Section 21 (Electronic Delivery) and 22 (Data Privacy) of the Plan.

13. Company Policies to Apply; Potential Clawback. The sale of any shares of Common Stock received as payment under the Restricted Stock Units is subject to the Company's policies regulating securities trading by employees or other service providers, all relevant federal and state securities laws and the listing requirements of any stock exchange on which the shares of the Company's Common Stock are then traded. In addition, participation in the Plan and receipt of remuneration as a result of the Restricted Stock Units is subject in all respects to any laws, regulations, or Company compensation policies related to the clawback of compensation that may be in effect from time to time.

14. Miscellaneous.

(a) Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) when personally delivered to the party to be notified; (b) when sent by electronic mail to the party to be notified; (c) five business days after deposit in the United States Mail postage prepared by certified or registered mail with return receipt requested at any time other than during a general discontinuance of postal service due to strike, lockout, or otherwise (in which case notice, request, waiver or other communication shall be effectively given upon receipt) and addressed to the party to be notified as set forth above; or (d) two business days after deposit with a national recognized overnight delivery service, postage prepaid, addressed to the party to be notified as set forth above with next-business-day delivery guaranteed. A party may change its notice address by giving the other party ten days' written of the new address in the manner set forth above.

(b) Successors and Assigns. This Award Agreement shall inure to the benefit of the successors and assigns of the Company and, subject to the restrictions on transfer herein set forth, be binding upon Participant, Participant's successors, and assigns.

(c) Governing Law. This Award Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws.

(d) Construction; Severability. The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Award Agreement. The invalidity or unenforceability of any provision of the Grant Notice or this Award Agreement shall not affect the validity or enforceability of any other provision thereof, and each other provision thereof shall be severable and enforceable to the extent permitted by law.

(e) Entire Award Agreement; Amendment. This Award Agreement, along with the Grant Notice and the Plan, constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes and merges all prior agreements or understandings, whether written or oral. Except as set forth in Section 5, above, neither the Award Agreement nor the Grant Notice may be amended or otherwise modified in a manner that is materially adverse to the Participant unless evidenced in writing and signed by the Company and Participant.

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Page 1 of 6 SETTLEMENT AGREEMENT AND MUTUAL RELEASE THIS SETTLEMENT AGREEMENT AND MUTUAL RELEASE (the “Agreement”) is made this 11th day of August, 2023 (the “Effective Date”) by urban-gro, Inc., a Delaware corporation (“UGRO”), Crest Ventures, LLC, a Delaware limited liability company (“Crest”) and Andrew I. Telsey, an individual (“Telsey”). UGRO, Crest and Telsey may sometimes be referred to herein collectively as the “Parties” and/or each individually as a “Party.” WHEREAS, on or before June 8, 2020, Crest and UGRO entered into a Finder’s Agreement (the “Finder’s Agreement”); WHEREAS, on or about June 18, 2020, Telsey introduced UGRO to ThinkEquity LLC, an investment banking firm (the “Introduction” to “ThinkEquity”); WHEREAS, ThinkEquity agreed to underwrite a secondary public offering of UGRO’s stock. An engagement letter to this effect was executed by and between UGRO and ThinkEquity on or before September 7, 2020; WHEREAS, on or about February 17, 2021, UGRO completed a secondary public offering of its stock from the OTCQX exchange to the NASDAQ exchange (the “Capital Raise”); WHEREAS, disputes have arisen between the Parties regarding the Finder’s Agreement, the Introduction and the Capital Raise (collectively, the “Disputes”); WHEREAS, as a result of the Disputes, Crest initiated Case No. 2021CV31301 in the District Court for Arapahoe County, Colorado (the “Civil Action”); WHEREAS, UGRO denied the Introduction to ThinkEquity was made within the purview of the Finder’s Agreement and asserted counterclaims against Crest and third-party claims against Telsey (the “UGRO Claims”) in connection with the Civil Action and the Disputes; and WHEREAS, the Parties now desire to resolve all disputes between them that arose out of or are in any way related to the Finder’s Agreement, the Introduction, the Capital Raise, the Civil Action, the UGRO Claims, the Disputes or any aspect of the relationship between and among UGRO, Crest and Telsey; NOW THEREFORE, in consideration of the promises and agreements herein contained and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the Parties hereby promise and agree as follows: 1. Recitals. The recitals above shall not be considered to be mere recitals but are incorporated into this Agreement as though fully set forth herein. 2. UGRO's Payment to Crest. UGRO shall pay Crest $1,500,000.00 U.S.D. in immediately available funds (the "Settlement Amount"), made payable to "Crest Ventures, LLC, and Thornton Law Firm, LLP, within thirty (30) days of execution of this Agreement by Crest and Telsey, and no later than September 10, 2023, thirty days after the Effective Date (as defined above).

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Page 2 of 6 3. Notice of Settlement and Dismissal of Civil Action. Within seven calendar days after UGRO has paid the full Settlement Amount, counsel for Crest shall draft, and the Parties shall execute, a Stipulated Notice of Dismissal with Prejudice, the Parties to each bear their own attorneys' fees and costs. 4. Mutual Release and Covenants Not to Sue. Each Party and each Party's heirs, legatees, agents, successors and assigns, employees, representatives, attorneys, and insurers, including Andrew I. Telsey, P.C., do hereby release, acquit, and forever discharge the other Party and each of the other Party's heirs, legatees, agents, successors and assigns, employees, representatives, attorneys and insurers (each a "Releasee;" in any combination or collectively, "Releasees") from any and all claims, demands, and damages (whether known or unknown) arising out of or in any way related to the Finder's Agreement, the Introduction, the Capital Raise, the Civil Action, the UGRO Claims, the Disputes or any aspect of the relationship between and among UGRO, Crest and Telsey, including but not limited to any claims that could have been brought in any lawsuit, including but not limited to any claims, demands, and damages for breach of contract, unjust enrichment, declaratory judgment, fraud, or breach of fiduciary duty, and excluding only claims and demands related to a Party's breach of this Agreement and any claims or rights a Party may have against another Party for any future acts giving rise to claims on or after the execution of this Agreement. The Parties each covenant not to initiate any further litigation or any alternative dispute resolution process. The mutual releases set forth herein are to be interpreted as broadly as possible by any court of competent jurisdiction, so long as such interpretation does not interfere with UGRO's reporting requirements as a publicly traded company. It is acknowledged and understood that one or more Parties may have suffered damages that are unknown at this time and that such unknown damages are being released hereby. 5. Mutual Indemnification. To the fullest extent permitted by law, Crest and Telsey shall indemnify and hold harmless UGRO and its heirs, legatees, agents, successors and assigns, employees, representatives, attorneys, and insurers (the "UGRO Indemnified Parties") from and against any and all third-party claims for civil liability, damages, costs and expenses, including but not limited to reasonable attorneys' fees and expert witness fees, that may be suffered or incurred by the following: (i) any negligent, willful, reckless, or wrongful act or omission of Telsey or Crest; (ii) any breach of this Agreement, or inaccuracy in, any representation made by, Telsey or Crest herein including the representations Telsey and Crest have all authority to enter into this Agreement and solely have the ability to release the claims herein; (iii) any alleged claims and/or demands, whether disputed or undisputed, made by any third party not a party to this Agreement, related to the Introduction and/or the Capital Raise; and (iv) any alleged violation by Telsey or Crest of any law, statute, regulation or ordinance. To the fullest extent permitted by law, UGRO shall indemnify and hold harmless Telsey and Crest and their heirs, legatees, agents, successors and assigns, employees, representatives, attorneys, and insurers (the "Telsey and Crest Indemnified Parties") from and against any and all third-party claims for civil liability, damages, costs and expenses, including but not limited to reasonable attorneys' fees and expert witness fees, that may be suffered or incurred by the following: (i) any negligent, willful, reckless, or wrongful act or omission of UGRO; (ii) any breach of this Agreement, or inaccuracy in, any representation made by, UGRO herein including the representations UGRO has all authority to enter into this Agreement and solely has the ability to release the claims herein; and (iii) any alleged violation by UGRO of any law, statute, regulation or ordinance.

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Page 3 of 6 6. Accord and Satisfaction. The performance of the obligations set forth in this Agreement are intended to operate as an accord and satisfaction of all disputes between and among the Parties, pursuant to or in any way related to the Finder's Agreement, the Introduction, the Capital Raise, the Civil Action, the UGRO Claims, the Disputes or any aspect of the relationship between and among UGRO, Crest and Telsey. The Parties acknowledge that they may hereafter discover facts different from, or in addition to those, which they now know or believe to be true with respect to the claims released above, and agree that this Agreement shall be and remain effective in all respects, notwithstanding such different or additional facts or the discovery thereof, excepting only fraud. This provision shall have no effect on the Parties' respective rights and obligations under this Agreement and as to matters occurring after the Effective Date (as defined above). 7. No Assignment of Claims. Each Party warrants that the Party has not entered into any prior assignments of any rights or claims that they may have relating to the subject matter of this Agreement, apart from Crest's assignment of 90% of its rights to recovery under the Finder's Agreement to Telsey. 8. Admissions. The Parties have jointly agreed to enter into this Agreement as a business decision, to avoid the costs, uncertainty and other burdens of further litigation. No Party admits any wrongdoing or liability whatsoever with respect to the Finder's Agreement, the Introduction, the Capital Raise, the Civil Action, the UGRO Claims, the Disputes or any aspect of the relationship between and among UGRO, Crest and Telsey. Each Party expressly denies any such wrongdoing or liability. Notwithstanding the foregoing, Crest and Telsey expressly admit that the Finders Agreement did not and does not apply to the Introduction and the subsequent Capital Raise. 9. Default/Breach, Jurisdiction and Venue. (a) Upon breach of the terms of this Agreement by any Party, in addition to the rights and remedies set forth elsewhere herein, the non-breaching Party shall have the right to seek damages from the breaching Party. (b) Each Party expressly consents to the exclusive jurisdiction of and venue in the state courts located in Arapahoe County, Colorado for purposes of this Agreement. 10. Attorneys' Fees and Costs. In the event of a dispute arising out of or relating to a breach of this Agreement, the prevailing party shall be entitled to an award of its reasonable costs and attorneys' fees incurred in the enforcement of rights and obligations hereunder. 11. Voluntary Agreement. This Agreement is entered into voluntarily by each Party and after consultation with the Party's legal counsel, to the extent such Party desires to consult with legal counsel. 12. Severability. If any provision of this Agreement is found to be invalid or unenforceable by any court or other lawful forum, such provision shall be ineffective only to the extent that it is in contravention to applicable laws, and the remaining provisions of this Agreement shall remain in full force and effect.

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Page 4 of 6 13. Entire Agreement; No Representations or Warranties. This Agreement embodies the entire agreement and understanding between the Parties in respect of the subject matter contained herein. This Agreement supersedes all prior agreements and understandings between the Parties with respect to such subject matter. Each Party by signing this Agreement agrees that: (a) no promises or agreements not expressed herein have been made to the Party; and (b) in executing this Agreement, the Party has not relied upon any statements or representations made by any other Party or Party's attorneys or agents concerning the subject matter, basis, or effect of the Agreement, except as set forth herein. 14. Counterparts. This Agreement may be executed in counterparts, all of which shall be considered one and the same agreement and shall become effective when the counterparts have been signed by each Party and delivered to the other Party. 15. Signatures. Facsimile, electronic or scanned copies of signatures in connection with this Agreement shall be effective as originals. 16. Drafting. The Parties acknowledge and agree that each Party participated in the drafting of this Agreement. The language of this Agreement shall be construed as a whole, according to its intent, and not strictly for or against any Party hereto, regardless of who drafted or was primarily responsible for the drafting of any of the language of this Agreement or any portion hereof. Each Party acknowledges that the Party has had the opportunity to object to, request modification of, or reject any clause or provision herein to which the Party does not agree. 17. Further Instruments, Documents, and Assurances. Each Party hereto from time to time shall execute and deliver such further instruments and documents, and perform such other acts, as the other Party or the other Party's counsel may reasonably request to effectuate the intent of this Agreement. Any Party may file this Agreement in any court or other dispute resolution proceeding directly relating to this Agreement. 18. Binding. This Agreement shall inure to the benefit of and be binding upon the heirs, legatees, agents, successors and assigns, agents, employees, representatives, attorneys and insurers of the Parties hereto, except as otherwise specifically stated herein. 19. Governing Law. The Parties hereby expressly agree that the terms and conditions of this Agreement, and any subsequent performance hereunder, shall be construed and controlled by the laws of the State of Colorado. 20. Headings. The paragraph headings throughout this Agreement are for convenience and reference only and the words contained herein shall not be held to expand, modify, amplify or aid in the interpretation, construction, or meaning of this Agreement. 21. Survival. The covenants and warranties contained in this Agreement shall survive the performance of the obligations undertaken by the Parties pursuant to this Agreement and shall not be deemed merged in any documents or instruments to be delivered by one Party to another, but shall remain in full force and effect. 22. Mutual Non-Disparagement. The Parties agree not to make any comments, either written or oral, which could be construed as negative or detrimental with respect to any of the

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Page 5 of 6 Releasees to any individual or entity, including but not limited to, clients, customers, vendors, employees, investors, financial or credit institutions, or banking institutions, to the extent permitted by law. 23. Confidentiality. The Parties acknowledge that due to the fact UGRO is a publicly traded company, subject to certain financial and business reporting obligations, the fact of a settlement, the terms of this Agreement, or the amount of the payments agreed to herein cannot be considered confidential. The Parties, and their respective heirs, legatees, agents, successors and assigns, employees, representatives, attorneys, and insurers do hereby agree to keep the circumstances leading thereto, strictly confidential, except as otherwise provided herein. The Parties may disclose the terms of this Agreement to the extent necessary to comply with federal, state, local, and/or international reporting and regulatory requirements. Remainder of page intentionally left blank – signature page(s) follow.

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Page 6 of 6 SETTLEMENT AGREEMENT AND MUTUAL RELEASE SIGNATURE PAGES URBAN-GRO, INC. A Delaware corporation ______________________ Bradley Nattrass, CEO Date: ___________________ Crest Ventures, LLC A Delaware limited liability company ________________________ Charles Arnold, Manager Date: ___________________ Andrew I. Telsey An individual ________________________ Andrew I. Telsey Date: ___________________ 8/11/2023 8/11/2023 8/11/2023

Exhibit 31.1

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

I, Bradley Nattrass, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: May 10, 2023 August 14, 2023

/s/ Bradley Nattrass

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

Exhibit 31.2

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

I, Richard A. Akright, certify that:

1. I have reviewed this quarterly report on Form 10-Q of urban-gro, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2023August 14, 2023

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

Exhibit 32.1

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

In connection with this quarterly report of urban-gro, Inc. (the "Company") on Form 10-Q for the three monthsquarterly period ended March 31, 2023June 30, 2023, as filed with the Securities and Exchange Commission on May 10, 2023August 14, 2023, (the "Report"), we, the undersigned, in the capacities and on the date indicated below, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 10, 2023 August 14, 2023	*/s/ Bradley Nattrass*
	Bradley Nattrass
	Chairperson of the Board of Directors and Chief Executive Officer
Dated: May 10, 2023 August 14, 2023	*/s/ Richard A. Akright*
	Richard A. Akright
	Chief Financial Officer

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.