UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

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

For the transition period from to

Commission file number 000-54286

SURNA INC.
(Exact name of registrant as specified in its charter)

Nevada	27-3911608
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1780 55th Street, Suite C, Boulder, Colorado	80301
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number (303) 993-5271

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.00001 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. [ ] Yes [X] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. [ ] Yes [X] No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for a 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. [X] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[ ] (Do not check if a smaller reporting company)	Smaller reporting company	[X]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter $9,674,453 on June 30, 2016.

The number of shares outstanding of the registrant's common stock as of March 20, 2017 is 184,031,578

DOCUMENTS INCORPORATED BY REFERENCE – None.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements contained in this Annual Report on Form 10-K other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, and our objectives for future operations, are forward-looking statements. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in Part I, Item 1A, "Risk Factors" in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this Annual Report on Form 10-K may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

Unless expressly indicated or the context requires otherwise, the terms "Surna," the "Company," "we," "us," and "our" in this document refer to Surna Inc., a Nevada corporation, and, where appropriate, its wholly owned subsidiaries.

PART I

ITEM 1. BUSINESS

Overview

Surna develops, designs, and distributes cultivation technologies for controlled environment agriculture ("CEA"). The Company's customers include state-regulated cannabis cultivation facilities as well as traditional indoor agricultural facilities, including organic herb and vegetable producers.

Surna's technologies include a comprehensive line of optimized lighting, environmental control, air sanitation and cultivation facilities. These technologies are designed to meet the specific environmental conditions required for indoor cultivation and to dramatically reduce energy and water consumption.

In addition, Surna offers mechanical design services specific to hydronic cooling including mechanical equipment and piping design.

Products and Services

Surna Chillers

Surna's liquid-based process cooling system provides a more reliable and efficient thermal cooling solution compared to typical air conditioning products:

- *Liquid-based cooling systems are more efficient.* Surna's hydronic cooling systems and proprietary technologies rely on liquid, instead of air, as a medium for heat exchange. Surna's systems can dramatically reduce the costs associated with cooling indoor cultivation facilities compared to traditional air conditioning products, depending on the specific environment and system design.

- *Redundancy is essential.* Due to the high value of indoor crops like cannabis, Surna's systems are designed to mitigate crop loss due to equipment failure. Surna's chillers are easily scalable and allow for redundant system design for a nominal increase in cost relative to ducted systems.

- *Closed-loop cooling systems reduce opportunities for contamination.* Surna's system provides for room isolation during the heat exchange process, thereby reducing the risk of cross-contamination between rooms. Surna's system uses chilled water delivered through a closed loop and does not require ducting. Traditional air conditioning systems use ducted air for heat removal, which disseminate contaminants between rooms. This greatly increases the risk of spreading the contamination throughout the entire grow space.

Surna Reflectors

Surna's reflector optimizes light delivery to the plant canopy. Thanks to the reflector's internal technology, the bulb is able to produce up to 9.1% more usable light without any increase in energy consumption. Light-on-target reflectivity is also increased due to the unique design and shape of the reflector, eliminating light wasted illuminating walls and aisles. The water-cooled version uses a unique automation protocol to employ "point-source" heat removal drastically reducing the energy required to capture and remove the heat generated by the bulb.

Bio-Security

Surna offers a full-service air sanitation technology program for mold and mildew risk mitigation to cultivators. This program uses a combination of site monitoring and photocatalytic oxidation equipment to maintain facility standards while destroying harmful airborne microbes without the production of byproducts.

Services

Surna provides a full-service engineering package for designing and engineering commercial scale thermodynamic systems specific to indoor grow facility conditions. Once the design is complete, Surna's project management team oversees its customers' installation through system commissioning. Surna's on-site commissioning program is designed to ensure that the target environment is achieved. Surna then offers an ongoing maintenance plan to maintain the integrity of the system through regularly scheduled visits with a goal of keeping its customers' system operating at peak performance.

Automation

Surna understands the importance of maintaining a consistent grow environment and as such seeks to provide "smart" equipment with onboard intelligence allowing the cultivator the ability to automate its system. Employing a number of technologies, Surna's building automation controls can be scaled to address a variety of customer needs and expectations. From simple environment measuring devices to full scale system automation, Surna believes it understands the needs of the cultivator.

Hybrid Building

Surna's comprehensive cultivation facility ("Hybrid Building") combines the advantages of a greenhouse with those of an indoor grow operation for indoor cultivators seeking efficiency and accelerated time to market. The Hybrid Building uses the sun as its primary light source and high power LED lights for supplemental lighting while maintaining the environmental and security controls of an indoor facility. Surna's technology is employed into this one fully operational building seeking to give the grower the best technology available on the market today.

Product Development

Surna places a priority on new product development and improvement both through its internal product development staff and in partnerships with other commercial entities. In the fiscal year ended December 31, 2016, the Company spent $349,000 towards the development of new products in the areas of lighting, climate control, bio-security, water purification, system automation and the hybrid building.

Intellectual Property

Surna relies on a combination of patent and trademark rights, trade secrets, laws that protect intellectual property, confidentiality procedures, and contractual restrictions with its employees and others to establish and protect its intellectual property rights. As of March 31, 2017, the Company has eight pending patent applications and four issued patents. The pending patent applications are a combination of PCT, utility and design patent applications that are directed to certain core Company technology. The Company's four issued patents are U.S. design patents related to the Company's reflector. The U.S. design patents provide protection for 14 years from the date of issue. Utility patents provide protection for 20 years from the earliest non-provisional application filing date. The Company has registered trademark registrations around its core brand ("Surna") in the United States and select foreign jurisdictions, as well as the Surna logo and the combined Surna logo and name in the United States. Our wordmark is also registered in the European Union and is pending registration in Canada. These are contained in three trademarks with the United States Patent and Trademark Office ("USPTO"). Subject to ongoing use and renewal, trademark protection is potentially perpetual.

Operating segments

Surna currently operates in one primary business segment, which encompasses designing, manufacturing, and distributing indoor climate control systems, including but not limited to chillers, lights, reflectors, and irrigation systems, for use in conjunction with the state-regulated cannabis and CEA industry.

Competition

Surna's chilled water system products and services compete with various national and local HVAC (heating, ventilation, and air conditioning) providers who traditionally resell, design, and implement climate control systems for comfort cooling of schools, offices, or other large buildings. Surna differs from these competitors by providing hydronic cooling systems tailored specifically for managing the distinct challenges in connection with the significant heat and humidity loads associated with cultivation of indoor crops.

Surna's dehumidification products face competition from other dehumidification manufacturers. Surna provides its customers and clients with dehumidification options that it believes are more cost effective and more efficient at removing humidity than its competitors in the indoor cultivation space.

Surna believes that few manufacturers of these products have expertise in the cannabis market and understand the needs of growers. Surna, however, is equipped to customize products for the cannabis market and advise growers on appropriate products to maximize crop yield. The Company expects increased competition in both the climate control and services divisions in the cannabis sector as an increasing number of states legalize the cultivation, distribution, and consumption of the crop.

Employees

As of March 31, 2017, Surna has 28 full-time employees. The Company may, however, utilize and has in the past utilized the services of a number of consultants, independent contractors, and professionals. Additional employees will be hired in the future depending on need and the Company's expansion.

Government Regulation

Surna's chillers are subject to state and municipal regulations regarding energy-efficiency standards often incorporated into building codes. Many states and municipalities have adopted some version of Standard 90.1 as published by the American Society of Heating, Refrigerating, and Air-Conditioning Engineers ("ASHRAE"); however, some states and municipalities have or may in the future adopt alternative standards that may be more or less restrictive than Standard 90.1. Similarly, Standard 90.1 is itself regularly updated—most recently in 2013. Each update of the standard generally reflects the availability of increasingly efficient technologies, resulting in stricter energy-efficiency requirements. The Company anticipates that its products will comply with these standards. With every product line, Surna offers a product that meets or exceeds the Standard 90.1.

Otherwise, the Company is subject substantially to the same government regulations that affect businesses generally. See, however, Item 1A - Risk Factors – "U.S. Federal and foreign regulation and enforcement may adversely affect the implementation of marijuana laws and regulations may negatively impact our revenue and profit or we could be found to be violating the Controlled Substances Act or other U.S. federal, state or foreign laws," "Litigation by states affected by marijuana legalization," "Variations in state and local regulation and enforcement in states that have legalized cannabis that may restrict marijuana-related activities, including activities related to cannabis, may negatively impact our revenue and profit," and "We and our customers may have difficulty accessing the services of banks, which may make it difficult to sell our products and services."

Corporate History

Surna incorporated in the State of Nevada on October 15, 2009.

Spin-off of Trebor Resource Management Group, Inc. Effective March 25, 2014, Surna completed the issuance of a dividend of all of the Company's ownership in Trebor Resource Management Group, Inc. ("Trebor"), a wholly-owned subsidiary, to its shareholders, resulting in Trebor becoming a separate entity. Trebor was seeking to identify and develop joint opportunities with third parties in the mining business in the Philippines. See Item 1A - Risk Factors – "If it were determined that our spin-off of Trebor Resource Management Group, Inc. in March 2014 violated federal or state securities laws, we could incur monetary damages, fines or other damages that could have a material adverse effect on our financial condition and prospects."

Acquisition of Safari Resource Group, Inc. On March 26, 2014, Surna exchanged 80,201,250 shares of the Company's unregistered shares of common stock and 77,220,000 shares of the Company's unregistered shares of preferred stock for 100% of the outstanding common stock of Safari Resource Group, Inc. ("Safari"), a Nevada corporation. Safari possessed intellectual property and strategic relationships that were integral to Surna's entrance into the CEA and state-regulated cannabis markets.

Spin-off of Surna Media, Inc. On June 30, 2014, Surna entered into a separation agreement with Lead Focus Limited, a British Virgin Islands company, which is owned by a combination of prior officers, directors, and others, in which Surna sold its subsidiary, Surna Media, Inc. ("Surna Media"), including Surna Media's subsidiaries, Surna HK and Flying Cloud, in exchange for a payment of $1 in cash and the buyer's assumption of all of the liabilities of Surna Media and its subsidiaries. As a result of this sale, Surna eliminated from its balance sheet all assets and liabilities associated with Surna Media and recorded a credit of $2,643,881 to its additional paid in capital. As a result of this sale, Surna ceased its operations relating to the development of web and mobile games, social networks, telecommunication services, IT support services, and open-source software.

Acquisition of Hydro Innovations, LLC. On July 25, 2014, Surna acquired 100% of the membership interests of Hydro Innovations, LLC, a Colorado limited liability company ("Hydro") from its owners, Stephen Keen and Brandy Keen (the "Keens"), for a price of $500,000 payable by assumption of a $250,000 promissory note on the books and records of Hydro as well as issuance of a $250,000 promissory note to the Keens. The Keens' promissory note bears interest at the rate of 6% per annum and is payable in monthly installments of $5,000 with a balloon payment for the balance of accrued interest and principal due on July 18, 2016, though it may be prepaid in whole or in part at any time. In addition, Surna entered into employment agreements with the Keens. Pursuant to the terms of the employment agreements, the Company agreed to employ Ms. Keen as Vice President of Sales and Mr. Keen as Vice President of Product Development, each for a period of three years beginning on July 25, 2014 and at an annual base salary of $96,000, as well as certain stock compensation, which is subject to review annually by the Board of Directors. Notwithstanding the 3-year term, both of the Keens employment agreements are at-will and may be terminated at any time, with or without cause. Mr. Keen's position changed to President and Chief Executive Officer on August 28, 2015 and then to Director of Product Development on June 15, 2016. The terms of his employment agreement did not change with his changes in position.

Available Information

Surna's website address is www.surna.com. The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the U.S. Securities and Exchange Commission ("SEC"). Such reports and other information filed by the Company with the SEC are available free of charge on our website at www.surna.com/investor-relations when such reports are available on the SEC's website.

The public may read and copy any materials filed by Surna with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The contents of the websites referred to above are not incorporated into this filing. Further, references to the URLs for these websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.

Risks Related to Our Business

We are solely dependent upon the funds we have raised so far to continue our operations, which may be insufficient to achieve significant revenue, and we may need to obtain additional financing, which may not be available to us.

We may require additional cash resources to finance our continued growth or other future developments, including any investments or acquisitions we may decide to pursue. We may need additional funds to complete further development of our business plan to achieve a sustainable sales level where ongoing operations can be funded out of revenue. We extinguished $3,350,523 in convertible debt owed to investors (net of an additional $500,000 in short-term borrowing), strengthening our balance sheet. In addition, in March 2017 we raised $2,685,000 in a private placement offering of common stock and warrants to accredited investors. With the addition of these funds we believe we have sufficient cash on hand to continue our operations through the year ended December 31, 2017. Before that date we will need to raise additional funds or move to profitable operations, as to which there can be no assurance.

We may need additional capital in the future, which could dilute the ownership of current shareholders or we may be unable to secure additional funding in the future or to obtain such funding on favorable terms.

Historically, we have raised equity and debt capital to support our operations. To the extent that we raise additional equity capital, existing shareholders will experience a dilution in the voting power and ownership of their common stock, and earnings per share, if any, would be negatively impacted. Our inability to use our equity securities to finance our operations could materially limit our growth. Any borrowings made to finance operations could make us more vulnerable to a downturn in our operating results, a downturn in economic conditions, or increases in interest rates on borrowings that are subject to interest rate fluctuations. The amount and timing of such additional financing needs will vary principally depending on the timing of new product launches, investments and/or acquisitions, and the amount of cash flow from our operations. If our resources are insufficient to satisfy our cash requirements, we may seek to issue additional equity or debt securities or obtain a credit facility. If our cash flow from operations is insufficient to meet our debt service requirements, we could be required to sell additional equity securities, refinance our obligations, or dispose of assets in order to meet debt service requirements. There can be no assurance that any financing will be available to us when needed or will be available on terms acceptable to us. Our failure to obtain sufficient financing on favorable terms and conditions could have a material adverse effect on our growth prospects and our business, financial condition and results of operations.

Even if we obtain more customers, there is no assurance that we will make a profit.

Even if we obtain more customers, there is no guarantee that we will be able to generate a profit. Because we are a small company and do not have much capital, we must limit our products and services. Because we will be limiting our marketing activities, we may not be able to attract enough customers to buy our products to operate profitably. If we cannot operate profitably, we may have to suspend or cease operations.

If we fail to establish or maintain effective internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, and investor confidence and the market price of our common stock may, therefore, be adversely impacted.

Our reporting obligations as a public company place a significant strain on our management, operational and financial resources, and systems for the foreseeable future. Annually, we are required to prepare a management report on our internal control over financial reporting containing our management's assessment of the effectiveness of our internal control over financial reporting. Management has presently concluded that our internal control over financial reporting is not effective and shall report such in management's report in this annual report on Form 10-K. In the event that the Company's status with the SEC changes to that of an accelerated filer from a smaller reporting company, our independent registered public accounting firm will be required to attest to and report on our management's assessment of the effectiveness of our internal control over financial reporting. Under such circumstances, even if our management concludes that our internal control over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us.

Our Directors and Officers possess the majority of our voting power, and through this ownership, control our Company and our corporate actions.

The officer/director group has a controlling influence in determining the outcome of any corporate transaction or other matters submitted to our shareholders for approval, including mergers, consolidations, and the sale of all or substantially all of our assets, election of directors, and other significant corporate actions. Such officers and directors may also have the power to prevent or cause a change in control. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these shareholders may give rise to a conflict of interest with the Company and our shareholders.

U.S. Federal and foreign regulation and enforcement may adversely affect the implementation of marijuana laws and regulations and may negatively impact our revenue and profit or we may be found to be violating the Controlled Substances Act or other U.S. federal, state, or foreign laws.

Currently, twenty-eight states and the District of Columbia permit some form of whole-plant cannabis use and cultivation either for medical or recreational use. Thirty-eight states allow or are considering legislation to allow the possession and use of non-psychoactive cannabidiol ("CBD") oil for some medical conditions only. There are efforts in many other states to begin permitting cannabis use and/or cultivation in various contexts, and it has been reported that eleven states are actively considering bills to permit recreational use or to decriminalize the use of marijuana. Nevertheless, the federal government continues to prohibit cannabis in all its forms as well as its derivatives. Under the federal Controlled Substances Act (the "CSA"), the policy and regulations of the federal government and its agencies is that cannabis has no medical benefit, and a range of activities including cultivation and use of cannabis is prohibited. Until Congress amends the CSA or the executive branch deschedules or reschedules cannabis under it, there is a risk that federal authorities may enforce current federal law. Enforcement of the CSA by federal authorities could impair the Company's revenue and profit, and it could even force the Company to cease operating entirely in the cannabis industry. The risk of strict federal enforcement of the CSA in light of congressional activity, judicial holdings, and stated federal policy, including enforcement priorities, remains uncertain.

We have recently begun selling products and services to cannabis growers in Canada, where medical marijuana currently is legal across the country both federally and provincially. Canadian Prime Minister Trudeau also is expected to introduce legislation to legalize, but strictly control, recreational use of marijuana. We believe Canada, with its federally legal regime, represents a significant business opportunity for us, but there can be no assurance that we will be able to make any additional sales of products or services in Canada.

In an effort to provide guidance to federal law enforcement, the US Department of Justice (the "DOJ") has issued Guidance Regarding Marijuana Enforcement to all United States Attorneys in a memorandum from Deputy Attorney General David Ogden on October 19, 2009, in a memorandum from Deputy Attorney General James Cole on June 29, 2011 and in a memorandum from Deputy Attorney General James Cole on August 29, 2013. Each memorandum provides that the DOJ is committed to enforcement of the CSA but the DOJ is also committed to using its limited investigative and prosecutorial resources to address the most significant threats in the most effective, consistent and rational way.

The August 29, 2013 memorandum, known as the Cole Memo, provides updated guidance to federal prosecutors concerning marijuana enforcement in light of state laws legalizing medical and recreational marijuana possession in small amounts. The Cole Memo sets forth certain enforcement priorities that are important to the federal government:

- Distribution of marijuana to children;
- Revenue from the sale of marijuana going to criminals;
- Diversion of medical marijuana from states where is legal to states where it is not;
- Using state authorized marijuana activity as a pretext of other illegal drug activity;
- Preventing violence in the cultivation and distribution of marijuana;
- Preventing drugged driving;
- Growing marijuana on federal property; and
- Preventing possession or use of marijuana on federal property.

The DOJ has not historically devoted resources to prosecuting individuals whose conduct is limited to possession of small amounts of marijuana for use on private property but relied on state and local law enforcement to address marijuana activity. In the event the DOJ reverses stated policy and begins strict enforcement of the CSA in states that have laws legalizing medical marijuana and recreational marijuana in small amounts, there may be a direct and adverse impact to our revenue and profit.

In 2014, the US House of Representatives passed an amendment (the "Rohrabacher-Farr Amendment") to the Commerce, Justice, Science, and Related Agencies Appropriations Bill, which funds the DOJ. The Rohrabacher-Farr Amendment prohibits the DOJ from using funds to prevent states with medical cannabis laws from implementing such laws. In August 2016, a Ninth Circuit federal appeals court ruled in *United States v. McIntosh* that the Rohrabacher-Farr Amendment bars the DOJ from spending funds on the prosecution of conduct that is allowed by state medical cannabis laws, provided that such conduct is in strict compliance with applicable state law. In March 2015, bipartisan legislation titled the Compassionate Access, Research Expansion, and Respect States Act (the "CARERS Act") was introduced, proposing to allow states to regulate the medical use of cannabis by changing applicable federal law, including by reclassifying cannabis under the Controlled Substances Act to a Schedule II controlled substance and thereby changing the plant from a federally-criminalized substance to one that has recognized medical uses.

Although these developments have been met with a certain amount of optimism in the scientific community, the CARERS Act has not yet been adopted, and the Rohrabacher-Farr Amendment, being an amendment to an appropriations bill, must be renewed annually. The currently enacted Commerce, Justice, Science, and Related Agencies Act, which includes the Rohrabacher-Farr Amendment, is effective, by passage of a short-term continuing resolution, through April 28, 2017. The federal government could at any time change its enforcement priorities against the cannabis industry. Any change in enforcement priorities could render such operations unprofitable or even prohibit such operations.

The former Obama administration effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, the new Trump administration could change this policy and decide to enforce the federal laws strongly. Any such change in the federal government's enforcement of current federal laws could cause significant financial damage to us and our shareholders.

Litigation by States Affected by Marijuana Legalization

Due to variations in state law among states sharing borders, certain states which have not approved any legal sale of marijuana may seek to overturn laws legalizing cannabis use in neighboring states. For example, in December 2014, the attorneys general of Nebraska and Oklahoma filed a complaint with the U.S. Supreme Court against the state of Colorado arguing that the Supremacy Clause (Article VI of the Constitution) prohibits Colorado from passing laws that conflict with federal anti-drug laws and that Colorado's laws are increasing marijuana trafficking in neighboring states that maintain marijuana bans, thereby putting pressure on such neighboring states' criminal justice systems. In March 2016 the Supreme Court, voting 6-2, declined to hear this case, but there is no assurance that it will do so in the future. Additionally, nothing prevents these or other attorneys general from using the same or similar cause of action for a lawsuit in a lower federal or other court.

Previously, the Supreme Court has held that drug prohibition is a valid exercise of federal authority under the commerce clause; however, it has also held that an individual state itself is not required to adopt or enforce federal laws with which it disagrees. If the Supreme Court rules that a legal cannabis state's legislation is unconstitutional, that could result in legal action against other states with laws legalizing medical and/or recreational cannabis use. Successful prosecution of such legal actions by non-marijuana states could have significant negative effects on our business.

Variations in state and local regulation and enforcement in states that have legalized cannabis that may restrict marijuana-related activities, including activities related to cannabis, may negatively impact our revenue and profit.

Individual state laws do not always conform to the federal standard or to other states' laws. A number of states have decriminalized marijuana to varying degrees, other states have created exemptions specifically for medical cannabis, and several have both decriminalization and medical laws. Eight states and the District of Columbia have legalized the recreational use of cannabis. Variations exist among states that have legalized, decriminalized, or created medical marijuana exemptions. For example, Alaska and Colorado have limits on the number of marijuana plants that can be grown by an individual in the home. In most states the cultivation of marijuana for personal use continues to be prohibited except by those states that allow small-scale cultivation by the individual in possession of marijuana for medicinal purposes or that person's caregiver. Active enforcement of state laws that prohibit personal cultivation of marijuana may indirectly and adversely affect revenue and profit of the Company.

We and our customers may have difficulty accessing the service of banks, which may make it difficult to sell our products and services.

Financial transactions involving proceeds generated by cannabis-related conduct can form the basis for prosecution under the federal money laundering statutes, unlicensed money transmitter statute and the U.S. Bank Secrecy Act. Recent guidance issued by the Financial Crimes Enforcement Network, or FinCen, a division of the U.S. Department of the Treasury, clarifies how financial institutions can provide services to cannabis-related businesses consistent with their obligations under the Bank Secrecy Act. Furthermore, supplemental guidance from the DOJ directs federal prosecutors to consider the federal enforcement priorities enumerated in the Cole Memo when determining whether to charge institutions or individuals with any of the financial crimes described above based upon cannabis-related activity. Nevertheless, banks remain hesitant to offer banking services to cannabis-related businesses. Consequently, those businesses involved in the cannabis industry continue to encounter difficulty establishing banking relationships. Our inability to maintain our current bank accounts would make it difficult for us to operate our business, increase our operating costs, and pose additional operational, logistical and security challenges and could result in our inability to implement our business plan.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern.

Our auditors have included a "going concern" provision in their opinion on our financial statements, expressing substantial doubt that we can continue as an ongoing business for the next twelve months. Our financial statements do not include any adjustments that may result from the outcome of this uncertainty. If we are unable to successfully raise the capital we need we may need to reduce the scope of our business to fully satisfy our future short-term liquidity requirements. If we cannot raise additional capital or reduce the scope of our business, we may be otherwise unable to achieve our goals or continue our operations. While we believe that we will be able to raise the capital we need to continue our operations, there can be no assurances that we will be successful in these efforts or will be able to resolve our liquidity issues or eliminate our operating losses.

Our inability to effectively manage our growth could harm our business and materially and adversely affect our operating results and financial condition.

Our strategy envisions growing our business. We plan to expand our product, sales, administrative and marketing operations. Any growth in or expansion of our business is likely to continue to place a strain on our management and administrative resources, infrastructure and systems. As with other growing businesses, we expect that we will need to further refine and expand our business development capabilities, our systems and processes and our access to financing sources. We also will need to hire, train, supervise, and manage new employees. These processes are time consuming and expensive, will increase management responsibilities and will divert management attention. We cannot assure that we will be able to:

- expand our products effectively or efficiently or in a timely manner;
- allocate our human resources optimally;
- meet our capital needs;
- identify and hire qualified employees or retain valued employees; or
- effectively incorporate the components of any business or product line that we may acquire in our effort to achieve growth.

Our inability or failure to manage our growth and expansion effectively could harm our business and materially and adversely affect our operating results and financial condition.

Our operating results may fluctuate significantly based on customer acceptance of our products. As a result, period-to-period comparisons of our results of operations are unlikely to provide a good indication of our future performance.

Management expects that we will experience substantial variations in our net sales and operating results from quarter to quarter due to customer acceptance of our products. If customers do not accept our products, our sales and revenue will decline, resulting in a reduction in our operating income or possible increase in losses.

If we do not successfully generate additional products and services, or if such products and services are developed but not successfully commercialized, we could lose revenue opportunities.

Our future success depends, in part, on our ability to expand our product and service offerings. To that end we have engaged in the process of identifying new product opportunities, such as our reflector and Hybrid Building to provide additional products and related services to our customers. The processes of identifying and commercializing new products is complex and uncertain, and if we fail to accurately predict customers' changing needs and emerging technological trends our business could be harmed. We have already and may have to continue to commit significant resources to commercializing new products before knowing whether our investments will result in products the market will accept. Furthermore, we may not execute successfully on commercializing those products because of errors in product planning or timing, technical hurdles that we fail to overcome in a timely fashion, or a lack of appropriate resources. This could result in competitors providing those solutions before we do and a reduction in net sales and earnings.

The success of new products depends on several factors, including proper new product definition, timely completion, and introduction of these products, differentiation of new products from those of our competitors, and market acceptance of these products. There can be no assurance that we will successfully identify additional new product opportunities, develop and bring new products to market in a timely manner, or achieve market acceptance of our products or that products and technologies developed by others will not render our products or technologies obsolete or noncompetitive.

Our future success depends on our ability to grow and expand our customer base. Our failure to achieve such growth or expansion could materially harm our business.

To date, our revenue growth has been derived from the sale of our products and services. Our success and the planned growth and expansion of our business depend on us achieving greater and broader acceptance of our products and services and expanding our commercial customer base. There can be no assurance that customers will purchase our services or products or that we will continue to expand our customer base. If we are unable to effectively market or expand our product and service offerings, we will be unable to grow and expand our business or implement our business strategy. This could materially impair our ability to increase sales and revenue and materially and adversely affect our margins, which could harm our business and cause our stock price to decline.

Our suppliers could fail to fulfill our orders for parts used to assemble our products, which would disrupt our business, increase our costs, harm our reputation, and potentially cause us to lose our market.

We depend on third party suppliers around the world, including in The People's Republic of China, for materials used to assemble our products. These suppliers could fail to produce products to our specifications or in a workmanlike manner and may not deliver the material or products on a timely basis. Our suppliers may also have to obtain inventories of the necessary parts and tools for production. Any change in our suppliers' approach to resolving production issues could disrupt our ability to fulfill orders and could also disrupt our business due to delays in finding new suppliers, providing specifications and testing initial production. Such disruptions in our business and/or delays in fulfilling orders could harm our reputation and could potentially cause us to lose our market.

Our inability to effectively protect our intellectual property would adversely affect our ability to compete effectively, our revenue, our financial condition, and our results of operations.

We may be unable to obtain intellectual property rights to effectively protect our branding, products, and other intangible assets. Our ability to compete effectively may be affected by the nature and breadth of our intellectual property rights. While we intend to defend against any threats to our intellectual property rights, there can be no assurance that any such actions will adequately protect our interests. If we are unable to secure intellectual property rights to effectively protect our branding, products, and other intangible assets, our revenue and earnings, financial condition, or results of operations could be adversely affected.

We also rely on non-disclosure and non-competition agreements to protect portions of our intellectual property portfolio. There can be no assurance that these agreements will not be breached, that we will have adequate remedies for any breach, that third parties will not otherwise gain access to our trade secrets or proprietary knowledge, or that third parties will not independently develop competitive products with similar intellectual property.

Our industry is highly competitive and we have less capital and resources than many of our competitors, which may give them an advantage in developing and marketing products similar to ours or make our products obsolete.

We are involved in a highly competitive industry where we compete with various other HVAC and dehumidification manufacturers who offer products similar to the products we sell. These competitors may have far greater resources than we do, giving our competitors an advantage in developing and marketing products similar to ours or products that make our products obsolete. While we believe we are better equipped to customize products for the cannabis market and advise growers on appropriate products to maximize crop yield as compared to traditional HVAC and dehumidification manufacturers, there can be no assurance that we will be able to successfully compete against these other manufacturers.

We will be required to attract and retain top quality talent to compete in the marketplace.

We believe our future growth and success will depend in part on our ability to attract and retain highly skilled managerial, product development, sales and marketing, and finance personnel. There can be no assurance of success in attracting and retaining such personnel. Shortages in qualified personnel could limit our ability to increase sales of existing products and services and launch new product and service offerings.

The market price of our common stock may be volatile and may be affected by market conditions beyond our control. The market price of our common stock is subject to significant fluctuations in response to, among other factors:

- variations in our operating results and market conditions specific to our business;
- the emergence of new competitors or new technologies;
- operating and market price performance of other companies that investors deem comparable;
- changes in our Board or management;
- sales or purchases of our common stock by insiders;
- commencement of, or involvement in, litigation;
- changes in governmental regulations, in particular with respect to the cannabis industry; and
- general economic conditions and slow or negative growth of related markets.

In addition, if the market for stocks in our industry, or the stock market in general, experiences a loss of investor confidence, the market price of our common stock could decline for reasons unrelated to our business, financial condition, or results of operations. If any of the foregoing occurs, it could cause the price of our common stock to fall and may expose us to lawsuits that, even if unsuccessful, could be costly to defend and a distraction to our Board of Directors and management.

The application of the "penny stock" rules could adversely affect the market price of our common shares and increase your transaction costs to sell those shares.

The SEC has adopted Rule 3a51-1, which establishes the definition of a "penny stock," for the purposes relevant to us, as any equity security that has a market price of less than $5.00 per share or with an exercise price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, Rule 15g-9 requires:

- that a broker or dealer approve a person's account for transactions in penny stocks, and
- the broker or dealer receives from the investor a written agreement to the transaction, setting forth the identity and quantity of the penny stock to be purchased.
- In order to approve a person's account for transactions in penny stocks, the broker or dealer must:
- obtain financial information and investment experience objectives of the person, and
- make a reasonable determination that the transactions in penny stocks are suitable for that person and the person has sufficient knowledge and experience in financial matters to be capable of evaluating the risks of transactions in penny stocks.

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

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

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

If it were determined that our spin-off of Trebor Resource Management Group, Inc. in March 2014 violated federal or state securities laws, we could incur monetary damages, fines or other damages that could have a material adverse effect on our financial condition and prospects.

As we previously reported, effective March 25, 2014, we effected the issuance of a dividend/spin-off of all of our ownership our wholly owned subsidiary, Trebor Resource Management Group, Inc. ("Trebor"), to our shareholders, resulting in Trebor becoming a separate entity (the "Spin-off"). The issuance of Trebor stock was completed on a one-for-one basis to our shareholders of record on March 21, 2014.

Under Staff Legal Bulletin No. 4 promulgated by the Division of Corporation Finance (the "Division") of the SEC, the Division expressed its view that the shares of a subsidiary spun off from a reporting company are not required to be registered under the Securities Act of 1933, as amended (the "Securities Act") when certain conditions are met. Although we intended to comply with the guidance set forth in Staff Legal Bulletin No. 4, we inadvertently failed to follow all of the steps necessary to rely on this guidance.

If it were determined that the Spin-off did not satisfy the conditions for an exemption from registration, the SEC and relevant state regulators could impose monetary fines or other sanctions as provided under relevant federal and state securities laws. Such regulators could also require us to make a rescission offer, which is an offer to repurchase the securities, to the holders of Trebor shares. This could also give certain current and former holders of the Trebor shares a private right of action to seek a rescission remedy under Section 12(a)(2) of the Securities Act. In general, this remedy allows a successful claimant to sell its shares back to the parent company in return for their original investment.

We are unable to quantify the extent of any monetary damages that we might incur if monetary fines were imposed, rescission were required, or one or more other claims were successful. As of the date of this filing, we are not aware of any pending or threatened claims that the Spin-off violated any federal or state securities laws, and we do not believe that assertion of such claims by any current or former holders of the Trebor shares is probable. However, there can be no assurance that any such claim will not be asserted in the future or that the claimant in any such action will not prevail. The possibility that such claims may be asserted in the future will continue until the expiration of the applicable federal and state statutes of limitations, which generally vary from one to three years from the date of sale. Claims under the antifraud provisions of the federal securities laws, if relevant, would generally have to be brought within two years of discovery, but not more than five years after occurrence.

Rule 144 contains risks for certain shareholders.

Pursuant to SEC Rule 144 promulgated under the Securities Act, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell their securities provided that: (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the three months preceding a sale, (ii) we are subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale and (iii) if the sale occurs prior to satisfaction of a one-year holding period, we have provided the public with current information at the time of sale.

Persons who have beneficially owned restricted shares of our common stock for at least six months but who are our affiliates at the time of, or at any time during the three months preceding a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the total number of securities of the same class then outstanding; or
- the average weekly trading volume of such securities during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;

Provided, in each case, we are subject to the Exchange Act periodic reporting requirements for at least three months before the sale. Such sales by affiliates must also comply with the manner of sale, current public information, and notice provisions of Rule 144.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

We own no real property. We maintain an executive office at 1780 55th Street, Suite A, Boulder, Colorado 80301, where Surna leases approximately 18,000 square feet with the lease term through April 1, 2017. The Company is in the process of negotiating a 90-day extension for our expired lease. We are in the process of evaluating our future office and warehouse needs, so we plan to continue with 90-day extensions under our expired lease agreement until we determine our office and warehouse requirements.

ITEM 3. LEGAL PROCEEDINGS

We are not presently a party to any material litigation, nor to the knowledge of management is any litigation threatened against us that may materially affect us.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is quoted on the OTCQB under the symbol "SRNA."

The following table sets forth the range of high and low bid prices for our common stock for the periods indicated. The information reflects inter-dealer prices, without retail mark-ups, markdowns, or commissions, and may not necessarily represent actual transactions.

Year	Quarter Ended	High	Low
2016	December 31	$ 0.25	$ 0.12
	September 30	$ 0.12	$ 0.08
	June 30	$ 011.	$ 0.07
	March 31	$ 0.08	$ 0.06
2015	December 31	$ 0.16	$ 0.07
	September 30	$ 0.25	$ 0.04
	June 30	$ 0.16	$ 0.05
	March 31	$ 0.44	$ 0.14

Holders of Record

As of March 20, 2017, there were approximately 149 holders of record and the closing price of our common stock was $0.17 per share as reported by the OTCQB. Because many of our shares of common stock are held by brokers and other institutions on behalf of shareholders, we are unable to estimate the total number of shareholders represented by these record holders.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

EQUITY COMPENSATION PLAN INFORMATION

Outstanding options as of December 31, 2016 are summarized as follows:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by shareholders	6,177,600(1)	$ 0.00024	5,148,000(2)
Equity compensation plans not approved by shareholders	-	-	-
Total	6,177,600(1)	$ 0.00024	5,148,000(2)

(1) Represents shares issuable upon exercise of awards issued under the 2014 Stock Ownership Plan of Safari (the "Safari Plan"), which was assumed by the Company in connection with the acquisition of Safari on March 26, 2014.

(2) The Company does not intend to issue any further awards under the Safari Plan.

Recent Issuances of Unregistered Securities

The following unregistered securities were issued by the Company during the fiscal year ended December 31, 2016:

	Shares
Shares issued pursuant to conversion of debt and accrued interest	33,365,609
Shares issued to employees as compensation	46,045
Shares issued for exercise of stock options	1,493,400
Total	34,905,054

Subsequent to December 31, 2016, the Company issued the following unregistered securities:

3,416,612 shares of the Company's common stock for the conversion of approximately $627,000 of convertible promissory notes and related accrued interest.

16,781,250 shares of the Company's common stock for aggregate gross proceeds of $2,685,000.

3,088,800 shares of the Company's common stock for the exercise of stock options.

700,000 shares issued for Board of Director agreement

The Company issued the shares of common stock described above in reliance upon the exemptions from registration afforded by Section 4(a)(2) and/or Rule 506 promulgated under the Securities Act of 1933, as amended.

ITEM 6. SELECTED FINANCIAL DATA

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

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

Overview

Surna develops, designs, and distributes cultivation technologies for controlled environment agriculture ("CEA"). The Company's customers include state-regulated cannabis cultivation facilities as well as traditional indoor agricultural facilities, including organic herb and vegetable producers. Surna's technologies include a comprehensive line of optimized lighting, environmental control, air sanitation, and cultivation facilities. These technologies are designed to meet the specific environmental conditions required for CEA and to dramatically reduce energy and water consumption.

In addition, Surna offers mechanical design services specific to hydronic cooling, including mechanical equipment and piping design.

Recent Developments

On January 8, 2015, the Company agreed to acquire 66% of the total membership interests in Agrisoft Development Group, LLC ("Agrisoft"). In connection with the purchase agreement the Company advanced a total of $260,000 through March 31, 2015, and secured repayment against certain of Agrisoft's assets. Prior to the closing of the transaction, however, Kind Agrisoft, LLC ("Kind Agrisoft"), with the Company's consent, agreed to purchase 100% of Agrisoft's assets. On June 23, 2015, in exchange for the Company's consent to its asset purchase agreement, Kind Agrisoft guaranteed repayment of the Company's advances to Agrisoft, the balance of which was then $272,217 plus annual interest of eight percent (8%), and it granted to the Company a secured interest in its accounts receivable and intellectual property to further guarantee such payment. Furthermore, Kind Agrisoft is obligated to make additional ongoing payments to the Company in the form of a 1% quarterly royalty on EBITDA (earnings before interest, taxes, depreciation, and amortization) until Kind Agrisoft's total payments to the Company (including payments under the Note and royalty on EBITDA) reach $600,000. The Company abandoned this acquisition and the note was paid-off in January 2017.

On February 24, 2015, Tom Bollich submitted his resignation as President, Chief Executive Officer, Chairman of the Board, and a member of the Board of Directors of the Company ("Board"), effective April 15, 2015. On April 17, 2015, the Board appointed Tae Darnell as Interim Principal Executive Officer and President to replace Tom Bollich then effective immediately. On August 28, 2015, the Board appointed Stephen Keen as the Company's President and Chief Executive Officer, replacing Tae Darnell. Mr. Keen had served as the Company's Vice President of Product Development since July 2014. He co-founded Hydro Innovations in 2007 and served as its Chief Executive Officer until its acquisition by the Company in July 2014.

As further described in Note 10, on October 31, 2016, the Company began private negotiations with certain holders of certain 10% convertible promissory notes (the "Original Notes") and warrants (the "Original Warrants" and together with the Original Notes, the "Original Securities") with a view to amending and converting the Original Notes and amending the terms of the Original Warrants.

The Original Securities were issued as part of a unit (each unit consisted of 250,000 shares of Common Stock, an Original Warrant to purchase 50,000 shares of Common Stock and an Original Note in the principal amount of $50,000) to investors participating in the Company's private placement financing that completed closings between October 31, 2014 and February 27, 2015. The Original Notes mature and become payable two years from issuance.

As of February 20, 2017, the Company has entered into Note Conversion and Warrant Amendment Agreements (each, an "Agreement" and together, the "Agreements") with each of 48 holders, to: (i) amend the Original Note (each an "Amended Note") to reduce the conversion price of such holder's Original Note and simultaneously cause the conversion of the outstanding amount under such Original Note into shares of Common Stock of the Company ("Conversion Shares") with the exception of agreements with three holders which provide for the payment of the principal amount in cash and the interest outstanding in stock and a further three agreements in which a cash sum was negotiated to pay the outstanding note in full; and (ii) reduce the exercise price of the Original Warrant (each, an "Amended Warrant" and together with an Amended Note, the "Amendments") in all except three Agreements. Each Agreement has been privately negotiated so the terms vary. Pursuant to the Agreements, the Original Notes have been amended to reflect a reduced conversion price per share between $0.09 and $0.22. Additionally, pursuant to the Agreements**,** certain Original Warrants have been amended to reflect a reduced exercise price per share between $0.30 and $0.35, with the exception of the first Agreement signed which amended certain Original Warrants to reflect a reduced exercise price of $0.15 per share.

Pursuant to the Agreements, the Company has (i) converted Original Notes with an aggregate outstanding principal amount of approximately $2,536,000. under the Original Notes, (ii) issued 18,893,393 Conversion Shares in connection with the conversion of such Original Notes and (iii) amended 2,536,000 Original Warrants to reduce their exercise price. During this time the Company also obtained a short-term loan of approximately $500,000.00 for working capital.

In connection with the Amendments, the Company has also negotiated with some of the holders a restriction that limits the number of Conversion Shares a holder may sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of any of such shares issuable in connection with the Amendments without the prior written consent of the Company for a period of ninety (90) days after the date of such holder's Agreement.

The Company intends to negotiate with the remaining holders of the Original Notes to convert the remaining $250,000.00 of principal; however, it cannot make any assurance that it will be successful in negotiating Agreements with any remaining holders of Original Notes.

On August 10, 2015, Tom Bollich transferred 21,428,023 shares of the Company's common stock to the Company. This transfer was not the result of any direct agreements between the Company and Bollich. On August 11, 2015, the Company authorized cancelation of the shares, and the shares were canceled on August 14, 2015.

On August 18, 2015, the Board amended Article II § 2 of the Company's bylaws such that the number of directorships may be set by the Board or by an action of the shareholders. Subsequent to this amendment, the Board adopted resolutions increasing the number of directorships from two (2) to five (5) and appointing Brandy Keen, Stephen Keen, and Morgan Paxhia to fill the vacant directorships until such time as their successors shall have been elected and qualified. Ms. Keen has served as the Company's Vice President of Sales since July 2014. Mr. Keen served as the Company's Chief Executive Officer and President from August 2015 to June 2016 and prior to that had served as the Vice President of Product Development since July 2014. Since June 2016, Mr. Keen has served as the Company's Director of Technology. Mr. Paxhia has served as managing director of Poseidon Asset Management since January 2014.

On November 11, 2015, the Company appointed Trent Doucet as its Chief Operating Officer, replacing Bryon Jorgenson, who resigned his position effective October 31, 2015. On December 21, 2015, Tae Darnell submitted to the Board his resignation as a director of the Company effective immediately. Subsequent to Mr. Darnell's resignation from the Board, the Board appointed the Company's Chief Operating Officer, Trent Doucet, to fill the vacancy on the Board in accordance with Article II § 02 of the Company's bylaws, as amended.

On January 21, 2016, the Board terminated the services of Douglas McKinnon as Chief Financial Officer, effective as of that date. Following termination of his services, on January 26, 2016, Mr. McKinnon submitted his resignation as a director on the Board, effective as of that date.

On January 21, 2016, the Board appointed Ellen White to serve as its Chief Financial Officer. Ms. White was serving as the Company's Director of Finance since September 2015. Ms. White resigned on June 23, 2016. Dean Skupen currently serves as the Company's Principal Accounting and Financial Officer.

On May 13, 2016, Stephen Keen notified the board of directors of his intention to no longer serve as the Company's President and Chief Executive Officer, effective June 15, 2016. Mr. Keen became the Company's Director of Technology. In connection with Mr. Keen's resignation, the Board appointed Trent Doucet, as the Company's President and Chief Executive Officer as of June 15, 2016.

On August 12, 2016, the Board appointed Dean S. Skupen to serve as Director of External Reporting and designated him as Principal Financial and Accounting Officer.

On February 21, 2017, Surna Inc. (the "Company") entered into a Purchase Agreement (the "Purchase Agreement") with Sante Veritas Therapeutics Inc. ("Sante Veritas"), pursuant to which the Company will design and provide equipment for the environmental control system in Sante Veritas' first commercial cultivation facility.

In March 2017 (the "Investment Date"), Surna Inc. (the "Company") entered into a Securities Purchase Agreement (the "Agreement") with certain accredited investors (the "Investors"). The Company issued an aggregate of 16,781,250 investment units (the "Units"), for aggregate gross proceeds of $2,685,000. Each Unit consists of one share of the Company's common stock, par value $0.00001 per share (the "Common Stock") and one warrant for the purchase of one share of Common Stock.

Pursuant to each of the warrants, the holder thereof may, subject to the terms of the warrant, at any time on or after six months after the date of the warrant and on or prior to the close of business on the date that is the third anniversary of the date of the warrant, purchase up to the number of shares of Company common stock as set forth in the respective warrant. The exercise price per share of the common stock under each warrant is $0.26, subject to adjustment as set forth in the warrants. Each warrant is callable at the Company's option commencing six months from the date of the warrant, provided the Company's common stock trades at a VWAP of $0.42 or greater (subject to adjustment) for five consecutive trading days (the "Call Condition"). Commencing at any time after the date on which the Call Condition is satisfied, the Company has the right, upon 30 days' notice to the holder given not later than 30 trading days after the date on which the Call Condition is satisfied, to redeem the number of warrant shares specified in the applicable Call Condition at a price of $0.01 per warrant share, subject to the terms of the warrant.

The Company claims an exemption from the registration requirements of the Securities Act, for the private placement of these securities pursuant to Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder because, among other things, the transaction did not involve a public offering, the purchasers are accredited investors, the purchasers acquired the securities for investment and not resale, and the Company took appropriate measures to restrict the transfer of the securities.

On March 14, 2017, the Board of Directors (the "Board") of Surna Inc. (the "Company") appointed Timothy J. Keating as a director to the Board. Mr. Keating will serve as the Company's Chairman and lead independent director.

On March 7, 2017, Mr. Keating and the Company entered into a Board of Directors Agreement (the "Agreement"). Pursuant to the Agreement, as a non-executive director of the Company and non-employee Chairman of the Board, Mr. Keating is entitled to an annual retainer of $75,000, of which $30,000 will be in the form of restricted common stock. The Company has also issued Mr. Keating an equity retention payment of 1,400,000 shares of the Company's restricted common stock (i) 700,000 shares of which were issued and vested immediately and (ii) 700,000 shares of which will vest on March 1, 2018.

Results of Operations

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

	2016	2015
Revenue	$ 7,579,000	$ 7,865,000
Cost of revenue	5,275,000	6,924,000
Gross margin	2,303,000	941,000
Gross margin %	30%	12%
Operating expenses	2,836,000	4,054,000
Operating loss	(533,000)	(3,114,000)
Other income (expense), net	(2,740,000)	(2,182,000)
Net loss	$ (3,273,000)	$ (5,296,000)

Revenue for the year ended December 31, 2016 decreased by 4% to $7,580,000 for the year ended December 31, 2016 as compared to $7,865,000 for 2015. A significant portion of our revenues for 2015 were derived from growers in the State of Nevada (legalized cannabis in 2014), which peaked in the third quarter of 2015. As our sales declined slightly from 2015 to 2016, our contractual sales commitments have been increasing. The sales amounts that we had under contract but which were not yet completed have increased year over year from $1,423,000 at December 31, 2015 to $2,646,000 at December 31, 2016.

Our contractual sales commitments increased during 2016 due to our customers having experienced increased delays in completing the construction of their facilities to accept their product. Our contractual sales cannot be canceled by our customers. Initially our sales contracts were dependent upon our customers' ability to secure, license and build their growing facilities and thus our revenue recognition was dependent upon shipping and our customers' ability to receive the product. We have seen an increased delay in the time frames in which our customers have been able to receive the product, most likely related to the increasing size of our projects. This factor has slowed our revenue recognition and increased our contractual sales commitments.

Since October 2016, all of our sales contracts have been freight-on board shipping ("FOB Shipping"). This removes any dependencies on our revenue recognition being tied to a customer's ability to receive product. The substantial increase in revenue for fiscal year 2015 compared to the prior year resulted from Hydro contributing twelve months of revenue to our results in fiscal year 2015, while Hydro's operations were a part of Surna for only five months in fiscal year 2014. Additional increases, and sustained, revenues from 2014 to 2016 are attributable to progress and ongoing legal and regulatory developments in an increasing number of states that permit and regulate cannabis cultivation and use for medical or recreational purposes. Our current and future revenue plan is dependent on the continued and increasing legality of the cannabis industry and our ability to effectively market our indoor agriculture products to this key segment as well as expand our reach to other markets.

Cost of revenue decreased by 24% to $5,276,000 for the year ended December 31, 2016 as compared to $6,924,000 for the year ended December 31, 2015. The gross margin for the year ended December 31, 2016 increased by 18% to 30% as compared to 12% for the year ended December 31, 2015 due to (i) negotiation of favorable pricing with key suppliers or sourcing new suppliers, (ii) a sales mix that consisted more of high margin products and (iii) reduced spending on installation projects, as we no longer provide installation services. These decreases are offset by a one-time charge in the year ended December 31, 2016 of approximately $530,000 for a warranty expense.

Operating expenses decreased by 30% to $2,837,000 for the year ended December 31, 2016 as compared to $4,055,000 for the year ended December 31, 2015. We have decreased advertising and marketing expenses by 52% from $310,000 for 2015 to $150,000 for 2016 due to a heavier emphasis on advertising in the prior year and a focus on reigning in costs in 2016. We decreased product development costs by 51% from $708,000 in 2015 to $349,000 in 2016 due to the product life cycle of the Surna reflector product, which has moved from development stage in the first quarter of 2015 to production stage in the first quarter of 2016. Also in 2015, we had additional cost of approximately $150,000 related to the development of the Surna Hybrid Building, which we introduced at the Marijuana Daily Conference in November 2016. We decreased general and administrative expenses by 23% from $3,038,000 in 2015 to $2,338,000 in 2016 due to reductions in personnel cost of approximately $200,000 as well as a focus on cost containment related to professional fees of approximately $250,000. We also reduced selling expenses and travel by approximately $150,000.

Other expenses have increased by 26% to $2,740,000 for the year ended December 31, 2016 from approximately $2,182,000 for the year ended December 31, 2015. The change is attributable to (i) a decrease in amortization of debt discounts and interest expense, (ii) the conversion of certain convertible promissory notes converted in the first quarter and second quarter of 2016; (iii) the loss on the change in derivative liabilities; and (iv) the loss due to the extinguishment of debt in the fourth quarter of 2016.

As a result of our decrease in cost of revenue and operating expenses, we reduced our net loss to $3,273,000 for the year ended December 31, 2016 as compared to $5,296,000 for the year ended December 31, 2015.

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

	2015	2014
Revenue	$ 7,865,243	$ 1,838,912
Cost of revenue	6,924,402	1,534,918
Gross margin	940,841	303,994
Gross margin %	12%	17%
Operating expenses	4,054,684	3,496,458
Operating loss	(3,113,843)	(3,192,464)
Other income (expense), net	(2,182,179)	218,266
Loss from continuing operations	(5,296,022)	(2,974,198)
Loss from discontinued operations	-	(17,771)
Net loss	$ (5,296,022)	$ (2,991,969)
Loss per common share from continuing operations - basic	$ (0.04)	$ (0.03)
Loss per common share from discontinued operations - basic	$ (0.00)	$ (0.00)
Loss per common share - basic	$ (0.04)	$ (0.03)

Revenue for the year ended December 31, 2015 was $7,865,243 as compared to $1,838,912 (328% growth) for the year ended December 31, 2014. The substantial increase in revenue for fiscal year 2015 compared to the prior year resulted from Hydro contributing twelve months of revenue to our results in fiscal year 2015, while Hydro's operations were a part of Surna for only five months in fiscal year 2014. Additional increases in revenues are attributable to progress and ongoing legal and regulatory developments in an increasing number of states that permit and regulate cannabis cultivation and use for medical or recreational purposes. Our current and future revenue plan is dependent on the continued and increasing legality of the cannabis industry and our ability to effectively market our indoor agriculture products to this key segment as well as expand our reach to other markets.

Cost of revenue for the year ended December 31, 2015 was $6,924,402 as compared to $1,534,918 (351% increase) for the year ended December 31, 2014. Increases are due in large part to increases in sales as well as the fact that Hydro operated as a Surna subsidiary for twelve months during fiscal year 2015 and only five months during fiscal year 2014. Cost of revenue increased at a slightly higher rate than revenue due in part to costs related to installation contracts that Surna began in the second half of 2014. Surna has since trained several traditional HVAC installation companies on the Surna system and will cease installation and focus on core competencies in 2016. Surna saw gross margin percentages erode to 12% from 17% due primarily to the reduced margins from the installation business as well as higher manufacturing costs.

Operating expenses were $4,054,684 compared to $3,496,458 for the year ended December 31, 2015 and 2014, respectively. Although operating expenses increased 16% year over year, such costs declined as percentage of revenue to 52% in 2015 from 190% in 2014. The increase is attributable to the more than doubling of product development costs to $707,517 from $319,430 as Surna makes key investments in its Hybrid building and lighting technologies. The 29% increase in advertising and marketing expenses to $309,620 from $240,784 is due in part to expenditures on potential customer tours at facilities that are now running Surna climate control systems. Additionally, now that more states have legal cannabis Surna is covering a wider geographic area with marketing events and conferences. The 3% increase in selling, general and administrative expenses to $3,037,547 from $2,936,244 for the year ended December 31, 2015 compared to the year ended December 31, 2014 represents investments in administrative staff and support to manage the more than tripling of transaction volumes. Selling, general and administrative expenses are primarily sales and marketing personnel costs as well as corporate, legal, and accounting expenses.

We incurred net other expenses of $2,182,179 for the year ended December 31, 2015 compared to net other income of $218,266 for the year ended December 31, 2014. This change largely resulted from $2,220,115 of amortization of debt discounts as well as greater interest expense, both in connection with convertible promissory notes issued during fiscal years 2015 and 2014.

Surna experienced very high growth in the second half of the year and experienced cash shortages as the Company increased inventory purchases to meet the new rates of demand. In order to meet the immediate cash requirements at that time Surna took on some debt at disadvantageous terms. Surna management is focused on improving margins by reducing costs and optimizing pricing so that reliance on outside debt is limited in the future.

We reported no discontinued operations for fiscal year 2015, while we incurred a loss of $17,771 from discontinued operations in connection with the sale of Surna Media, Inc. and its affiliates in fiscal year 2014.

Overall, we realized a net loss of $5,296,022 for the year ended December 31, 2015 as compared to $2,991,969 for the year ended December 31, 2014.

Liquidity and Capital Resources

During the year ended December 31, 2016, our primary source of liquidity was from operating activities as compared to prior years where our primary source of liquidity was from financing activities. This significant change in liquidity is due primarily to the Company's effort in reducing the cost of goods sold and general and administrative expenses. The following summarizes our cash flows for the years ended December 31,:

	2016	2015
Cash provided by (used in) operating activities	$ 103,496	$ (1,685,358)
Cash provided by (used in) investing activities	41,619	(169,599)
Cash (used in) provided by financing activities	(156,127)	1,495,551
Net change in cash	$ (11,011)	$ (359,406)

As a result of our decrease in cost of revenue and operating expenses, as described above, we used less cash in operating activities during the year ended December 31, 2016 as compared to December 31, 2015.

As of December 31, 2016 and 2015, our total assets were $2,118,000 and $3,103,000, respectively, and our total liabilities were $4,229,000 and $5,950,000, respectively. As of December 31, 2016 and 2105, we had working capital deficits of approximately of $2,860,000 and $3,020,000, respectively.

We reported net losses of $3,273,000 and $5,296,000 for the fiscal years ended December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, we raised a total of $0 and $1,781,250 in connection with issuances of three series of convertible promissory notes.

In March 2017, the Company complete a private placement offering of its common stock for total proceeds of $2,685,000.

Cash Requirements

Our ability to fund our growth and meet our obligations on a timely basis is dependent on our ability to match our available financial resources to our growth strategy, which includes acquisitions for cash or a combination of cash and debt. The decisions we make with regard to acquisitions drive the level of capital required and the level of our financial obligations.

If we are unable to generate cash flow from operations and successfully raise sufficient additional capital through future debt and equity financings or strategic and collaborative ventures with potential partners, we would likely have to reduce the size and scope of our operations.

We have suffered recurring losses from operations. The continuation of our Company is dependent upon our Company attaining and maintaining profitable operations and raising additional capital as needed. In this regard, we have raised additional capital through equity offerings and loan transactions, and, in the short term, will seek to raise additional capital in such manners to fund our operations. Our officers and shareholders have not made any written or oral agreement to provide us additional financing. There can be no assurance that we will be able to continue to raise capital on terms and conditions that are acceptable to us.

Inflation

In the opinion of management, inflation has not and will not have a material effect on our operations in the immediate future. Management will continue to monitor inflation and evaluate the possible future effects of inflation on our business and operations.

Contractual Payment Obligations

We have obligations under notes payable and a non-cancelable operating lease. As of December 31, 2016, our contractual obligations are as follows:

Contractual Obligations	Total	Less than 1 Year	1 - 3 Year	3 -5 Years	More than 5 Years
Debt obligations (including interest)	$ 922,000	$ 922,000	$ -	$ -	$ -
Amounts due to shareholders	69,000	57,000	12,000		
Operating lease obligations	55,000	55,000	-	-	-
Total	$ 1,046,000	$ 1,034,000	$ 12,000	$ -	$ -

As of the date of this filing, the debt obligations (including interest) were converted into the Company's common stock or paid in in cash.

The Company holds a lease agreement for its manufacturing and office space consisting of approximately 18,000 square feet. The lease term extends through April 1, 2017. The Company is in the process of negotiating a 90-day extension for our expired lease. We are in the process of evaluating our future office and warehouse needs, so we plan to continue with 90-day extensions under our expired lease agreement until we determine our office and warehouse requirements.

Off Balance Sheet Arrangements

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, such as changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. As of December 31, 2016, we have no off-balance sheet arrangements.

Going Concern

The Company's independent registered public auditor's report accompanying our December 31, 2016 and 2015 audited financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern. The financial statements have been prepared assuming that the Company will continue as a going concern. Our ability to continue as a going concern is dependent on raising additional capital to fund our operations and ultimately on generating future profitable operations. There can be no assurance that we will be able to raise sufficient additional capital or eventually have positive cash flow from operations to address all of our cash flow needs. If we are not able to find alternative sources of cash or generate positive cash flow from operations, our business and shareholders will be materially and adversely affected.

Critical Accounting Policies

The discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. Certain accounting policies and estimates are particularly important to the understanding of our financial position and results of operations and require the application of significant judgment by our management or can be materially affected by changes from period to period in economic factors or conditions that are outside of our control. As a result, they are subject to an inherent degree of uncertainty. In applying these policies, management uses their judgment to determine the appropriate assumptions to be used in the determination of certain estimates. Those estimates are based on our historical operations, our future business plans and projected financial results, the terms of existing contracts, observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. For information regarding the Company's critical accounting policies as well as recent accounting pronouncements, see Note 1 to the consolidated financial statements.

Concentration of Credit Risk

Financial instruments that potentially subject Surna to concentration of credit risk consist of cash and accounts receivable. Under Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, for the two-year period of January 1, 2015 through December 31, 2016, cash balances in noninterest-bearing transaction accounts at all FDIC-insured depository institutions are provided temporary unlimited deposit insurance coverage. As of December 31, 2016, cash balances in interest-bearing accounts were approximately $280,000.

Two customers accounted for 14% and 10%, respectively, of the Company's revenue for the year ended December 31, 2016. One customer accounted for 10% of the Company's revenue for the year ended December 31, 2015.

The Company's accounts receivable from two customers make up 39% and 29% of the total balance as of December 31, 2016. The Company's accounts receivable from four customers made up 89% of the total balance as of December 31, 2015.

Trends, Events, and Uncertainties

Development of new technologies or product solutions is, by its nature, unpredictable. Although we will undertake development efforts with commercially reasonable diligence, there can be no assurance that we will have adequate capital to develop our technology or products to the extent needed to create future sales to sustain our operations.

No assurance can be provided that our technology or products will be adopted, that we will ever earn revenue sufficient to support our operations, or that we will ever be profitable. Furthermore, since we have no committed source of financing, we can provide no assurance that we will be able to raise money as and when we need it to continue our operations. If we cannot raise funds as and when we need them, we may be required to severely curtail, or even to cease, our operations.

Other than as discussed above and elsewhere in this Annual Report on Form 10-K, we are not aware of any trends, events, or uncertainties that are likely to have a material effect on our financial condition.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this Item 8 are included at the end of this Report beginning on page F-1 as follows:

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management conducted an evaluation, with the participation of our Chief Executive Officer and our Principal Financial and Accounting Officer of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this annual report on Form 10-K. Based upon that evaluation, our Chief Operating Officer and Chief Financial Officer concluded that as a result of the material weakness in our internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2016.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for the preparation of our financial statements and related information. Management uses its best judgment to ensure that the financial statements present fairly, in material respects, our financial position and results of operations in conformity with generally accepted accounting principles.

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in the Exchange Act. These internal controls are designed to provide reasonable assurance that the reported financial information is presented fairly, that disclosures are adequate and that the judgments inherent in the preparation of financial statements are reasonable. There are inherent limitations in the effectiveness of any system of internal controls including the possibility of human error and overriding of controls. Consequently, an effective internal control system can only provide reasonable, not absolute, assurance with respect to reporting financial information.

Our internal control over financial reporting includes policies and procedures that: (i) pertain to maintaining records that, in reasonable detail, accurately and fairly reflect our transactions; (ii) provide reasonable assurance that transactions are recorded as necessary for preparation of our financial statements in accordance with generally accepted accounting principles and that the receipts and expenditures of company assets are made in accordance with our management and directors authorization; and (iii) provide reasonable assurance regarding the prevention of or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

Under the supervision of management, including our Chief Executive Officer and our Principal Financial and Accounting Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published in 2013 and subsequent guidance prepared by COSO specifically for smaller public companies. Based on that evaluation, our management concluded that our internal control over financial reporting was not effective as of December 31, 2016 for the reasons discussed below.

A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

Management identified the following material weakness in its assessment of the effectiveness of internal control over financial reporting as of December 31, 2016:

The Company did not maintain effective controls over certain aspects of the financial reporting process because we lacked a sufficient complement of personnel with a level of accounting expertise and an adequate supervisory review structure that is commensurate with our financial reporting requirements. In addition, there was inadequate segregation of duties due to the limitation on the number of our accounting personnel.

We intend to take appropriate and reasonable steps to make the necessary improvements to remediate these deficiencies. However, due to our size and nature, segregation of all conflicting duties has not always been possible and may not be economically feasible.

Our management, including our Chief Executive Officer and our Principal Financial and Accounting Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting 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. 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. Due to 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.

The material weaknesses in internal control over financial reporting as of December 31, 2016 remain unchanged from December 31, 2015. Management believes that the material weaknesses set forth above did not have an effect on our financial reporting for the year ended December 31, 2016. Yet, we are committed to continuing to improve our financial organization. Subject to the availability of sufficient funds during 2017 to expand our accounting staff, we also expect to create a position to segregate duties consistent with control objectives and will increase our personnel resources, if necessary, by hiring independent third parties or consultants to provide expert advice as needed.

We will continue to monitor and evaluate the effectiveness of our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. We do not, however, expect that the material weaknesses in our disclosure controls will be remediated until such time as we have improved our internal control over financial reporting.

This annual report on Form 10-K does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes identified in connection with our internal control over financial reporting during the quarter ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Officers and Directors

The name, age and positions held by our executive officers and directors:

Name	Age	Position(s) and Office(s) Held
Stephen Keen[(1)]	38	Director of Technology
Trent Doucet[(2)]	47	President, Chief Executive Officer and Director
Brandy Keen[(3)]	40	Vice President of Sales, Secretary and Director
Morgan Paxhia[(4)]	33	Director
Timothy Keating[(5)]	53	Director, Chairman of Board of Directors

(1) Mr. Keen served as Chief Executive Officer from August 28, 2015 to June 15, 2016 and as a director since August 18, 2015. As of June 15, 2016, Mr. Keen has served as Director of Technology.

(2) Mr. Doucet has served as President and Chief Executive Officer since June 15, 2016 and served as Chief Operating Officer from November 11, 2015 to June 15, 2016. He has served as a director since December 21, 2015.

(3) Ms. Keen has served as a Vice President of Sales since July 2014 and as a director since August 18, 2015.

(4) Mr. Paxhia has served as a director since August 18, 2015.

(5) Mr. Keating has served as Chairman of the Board of Directors since March 14, 2017. Prior to this date, the Company did not have an appointed Chairperson.

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our Board of Directors and hold office until removed by the Board. All officers and directors listed above will remain in office until the next annual meeting of our shareholders, and until their successors have been duly elected and qualified. There are no agreements with respect to the election of directors. Our Board appoints officers annually and each executive officer serves at the discretion of our Board.

Except for Stephen and Brandy Keen, who are married, there are no family relationships among any of our directors or executive officers.

None of the directors or officers of the Company was involved in any legal proceedings described in Item 401(f) of Regulation S-K.

Set forth below is a brief description of the background and business experience of our current executive officers and directors.

Background of Officers and Directors

Trent Doucet
President, Chief Executive Officer and Director

Mr. Doucet has served as President and Chief Executive Officer since June 15, 2016 and previously served as Chief Operating Officer from November 11, 2015 to June 15, 2016. He has served as a director since December 21, 2015. In 2000, Doucet founded Primus Networks, Inc., which was acquired in 2011 by White Glove Technologies, LLC. Mr. Doucet served as Managing Director at White Glove until 2012 when it was acquired by mindSHIFT Technologies, a nationwide managed IT service provider owned by Ricoh USA. Mr. Doucet served as Vice President and Managing Director at mindSHIFT until joining Surna in 2015, where he was responsible for revenue growth for the strategic services group.

In its Current Report on Form 8-K, filed on June 29, 2016, the Company inadvertently incorrectly reported that Mr. Doucet began serving as the Company's President and Chief Executive Officer, and ceased to serve as the Company's Chief Operating Officer, on May 13, 2016. Mr. Doucet began serving as the President and Chief Executive Officer, and ceased to serve as the Company's Chief Operating Officer, on June 15, 2016.

Stephen Keen
Director of Technology and Director

Mr. Keen has served as Director of Technology since June 15, 2016. He previously served as Chief Executive Officer and President from August 28, 2015 to June 15, 2016. He has served as a director since August 18, 2015. Previously, he served as the Company's Vice President of Product Development since July 2014. Mr. Keen co-founded Hydro Innovations in 2007, and served as its chief executive officer until its acquisition by the Company in July 2014.

Brandy Keen
Vice President of Sales, Secretary and Director

Ms. Keen has served as a Vice President of Sales and Secretary since July 2014 and as a Director since August 18, 2015. Ms. Keen co-founded Hydro Innovations, LLC in 2007 and served as its director of operations until its acquisition by the Company in July 2014.

Timothy Keating
Director – Chairman of Board of Directors

Mr. Keating was appointed Chairman of the Board of Directors and Lead Independent Director on March 14, 2017. He brings more than 31 years of Wall Street experience, including 17 years as the principal owner of Keating Investments, LLC. Mr. Keating also served on the Equity Capital Formation Task Force and is the chairman of the Denver chapter of Harvard Alumni Entrepreneurs. He is currently the President of Keating Wealth Management, LLC, a Denver-area investment firm serving high net worth investors and their families, with a particular focus on private business ownership. Mr. Keating is a cum laude graduate of Harvard College with an A.B. in Economics.

Morgan Paxhia
Director

Mr. Paxhia has served as an Independent Director since August 18, 2015. He is the managing director of Poseidon Asset Management, which he helped found in January 2014. From October 2013 to July 2015, he was the principal and managing director of Paxhia Investment Management. From June 2009 to November 2013, Mr. Paxhia was an investment counselor with a privately owned registered investment adviser. Previously, Mr. Paxhia worked on the municipal bond desk at UBS in New York City before moving into the wealth management as a financial advisor associate with UBS.

Committees of our Board of Directors

Our securities are not quoted on an exchange that has requirements that a majority of our Board members be independent and we are not currently otherwise subject to any law, rule or regulation requiring that all or any portion of our Board of Directors include “independent” directors, nor are we required to establish or maintain an audit committee or other committee of our Board.

Nevertheless, we have a compensation committee, which is chaired by Mr. Paxhia and on which Ms. Keen also serves. The Board does not have standing audit or nominating committees, nor does it have an audit committee financial expert. The Board does not believe these committees are necessary based on the size of the Company, the current levels of compensation to corporate officers, and the concentration of ownership of our securities with members of our Board. The Board will consider establishing audit and nominating committees at the appropriate time.

The entire Board participates in the consideration of compensation issues and of director nominees, with specific input and guidance from the members of our compensation committee. Candidates for director nominees are reviewed in the context of the current composition of the Board and the Company’s operating requirements and the long-term interests of its shareholders. In conducting this assessment, the Board considers skills, diversity, age, and such other factors as it deems appropriate given the current needs of the Board and the Company, to maintain a balance of knowledge, experience, and capability.

The Board’s process for identifying and evaluating nominees for director, including nominees recommended by shareholders, involves compiling names of potentially eligible candidates, conducting background and reference checks, conducting interviews with the candidate and others (as schedules permit), meeting to consider and approve the final candidates and, as appropriate, preparing an analysis with regard to particular recommended candidates.

Code of Ethics

The Board of Directors has adopted a code of ethics applicable to its executive officers, which is available online at http://www.surna.com/code-ethics. We intend to satisfy the disclosure requirements under Item 5.05 of Form 8-K regarding amendment to or waiver from, a provision of our code of ethics and by posting such information on the website address and location specified above.

Compliance with Section 16 of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) during the year ended December 31, 2016, Forms 5 and any amendments thereto furnished to us with respect to the year ended December 31, 2016, and the representations made by the reporting persons to us, who, at any time during such fiscal year was a director, officer or beneficial owner of more than 10% of the Company’s common stock, was in compliance with timely filing with all Section 16(a) filing requirements during the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth certain compensation information for our principal executive officers or other individuals serving in a similar capacity during the years ended December 31, 2016 and 2015.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards	Non-equity Incentive Plan Compensation	Non-qualified Deferred Compensation Earnings	All Other Compensation	Total
Stephen Keen Director of Technology[1]	2016	$ 110,200	$ -	$ -	$ -	$ -	$	$ 7,200[3]	$
Stephen Keen CEO[1]	2015	80,000	-	-	-	-	16,000	120 [4]	
Trent Doucet CEO[2]	2016	125,800	-	-	-	-	-	34,600[5]	
Trent Doucet COO[2]	2015	17,500	-	-	-	-	-	-	

(1) Mr. Keen was appointed Director of Technology on June 15, 2016. He previously served as Chief Executive Officer from August 28, 2015 to June 15, 2016. Previously, he served as Vice President of Product Development following the Company's acquisition of Hydro Innovations, LLC on July 25, 2014. All compensation amounts presented include the amount earned during 2016 and 2015 both prior to and subsequent to his transition from Chief Executive Officer to Director of Technology.

(2) Mr. Doucet has served as President and Chief Executive Officer since June 15, 2016 and previously served as Chief Operating Officer from November 11, 2015 to June 15, 2016. All compensation amounts presented include the amount earned during 2016 and 2015 both prior to and subsequent to his appointment as President and Chief Executive Officer.

(3) Amounts set forth in the All Other Compensation column consist of the Company's contribution to Named Executive Officer's 401(k) Plan ($3,300) and the cost of insurance benefits borne by the Company ($3,900).

(4) Amounts set forth in the All Other Compensation column consist solely of the Company's contribution to Named Executive Officer's 401(k) Plan.

(5) Amounts set forth in the All Other Compensation column consist of rent paid by the Company for Mr. Doucet's Boulder apartment ($30,700) and of the cost of insurance benefits borne by the Company ($3,900).

Outstanding Equity Awards at Fiscal Year-End December 31, 2016

Other than as set forth below, as of December 31, 2016, there were no outstanding unexercised options, unvested stock, and/or equity incentive plan awards issued to our named executive officers.

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
Stephen Keen	1,544,400	-	-	$ 0.00024	3/18/2017	-	$ -	-	$ -

Employment Agreements with Named Executive Officers

None

Compensation of Directors

The members of our Board other than our Chairman, Timothy Keating, are not compensated for their services as directors. The Board has not implemented a plan to award options to any directors and there are no contractual arrangements with any member of the Board or any director's service contracts other than with Mr. Keating. However, the Company will reimburse directors for expenses incurred in connection with their director services. Pursuant to the Board of Directors Agreement entered into by the Company and Mr. Keating on March 14, 2017, as a non-executive director of the Company and non-employee Chairman of the Board, Mr. Keating is entitled to an annual retainer of $75,000, of which $30,000 will be in the form of restricted common stock. The Company has also issued Mr. Keating an equity retention payment of 1,400,000 shares of the Company's restricted common stock (i) 700,000 shares of which vested immediately and (ii) 700,000 shares of which will vest on March 1, 2018.

Background and Qualifications of Directors

When considering whether directors and nominees have the experience, qualifications, attributes and skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of the Company's business and structure, the Board focuses primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth above. We believe that our directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. As more specifically described in the biographies set forth above, our directors possess relevant knowledge and experience in the finance, accounting, and business fields generally, which we believe enhances the Board's ability to oversee, evaluate and direct our overall corporate strategy.

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

The following table sets forth certain information, as of March 31, 2017, with respect to the beneficial ownership of our outstanding common stock and preferred stock by:

- any holder of more than 5% of our common stock,
- each of our named executive officers listed in the summary compensation table above,
- each of our directors, and
- our directors and current executive officers as a group.

Unless otherwise indicated, the business address of each person listed is in care of Surna Inc., 1780 55th Street, Suite C, Boulder, Colorado, 80301. The information provided herein is based upon 139,044,878 shares of common stock and 77,220,000 shares of preferred stock outstanding as of March 31, 2016. The percentages in the table have been calculated on the basis of treating as outstanding for a particular person, all shares of our common stock outstanding on that date and all shares of our common stock issuable to that holder in the event of exercise of outstanding options, warrants, rights or conversion privileges owned by that person at that date, which are exercisable within 60 days of that date. Except as otherwise indicated, the persons listed below have sole voting and investment power with respect to all shares of our common stock owned by them.

Shares Beneficially Owned as of March 20, 2017

Name of Beneficial Owner	Common Stock Shares	Common Stock %	Preferred Stock Shares	Preferred Stock %	% of Total Voting Power[1]
Current and Named Executive Officers and Directors:					
Brandy Keen[+]	28,749,669	15.8%	35,189,669(2)	45.6%	14.5%
Stephen Keen[+]	28,749,669	15.8%	35,189,669(2)	45.6%	14.5%
Morgan Paxhia[+]	6,575,402(3)	3.6%	33,428,023	43.3%	9.1%
Trent Doucet[+]	3,088,800(5)	1.7%	-	-	0.7%
Timothy Keating[+]	700,000(6)	0.4%	-	-	0.2%
+ Above, which are current officers and directors, as a group (5 individuals)	67,863,540	38.1%	68,617,692(4)	88.9%	23.6%
Other 5% Shareholders:					
None	-	-	-	-	-

+ Identifies Officers and Directors as of March 20, 2016.

(1) Includes 178,155,530 shares of common stock and 77,220,000 shares of preferred stock outstanding as of March 20, 2016.

(2) Includes 35,189,669 shares of preferred stock beneficially owned by Brandy Keen and Stephen Keen. The holders of preferred stock have one vote per share of preferred stock equivalent to one vote of common stock.

(3) Securities are held of record by Demeter Capital Group LP (“Demeter”). Poseidon Asset Management, LLC is the general partner and/or investment manager of Demeter and, in such capacity, exercises voting and dispositive power over such securities. The managing members of Poseidon are Emily Paxhia and Morgan Paxhia. As managing members, they have the joint ability to vote or dispose of the securities. The business address of Demeter is 130 Frederick Street #102, San Francisco, California 94117.

(4) Includes shares of preferred stock beneficially owned by Brandy Keen, Stephen Keen, and Morgan Paxhia

(5) 3,088,800 shares of common stock issuable upon the exercise of a stock option held by Mr. Doucet. Mr. Doucet has presented the Company with his notice to exercise, but the shares were not issued as of March 30, 2017

(6) 700,000 granted but not issued to Mr. Keating as part of his Board of Directors Agreement executed on March 14, 2017

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

As of December 31, 2016, the Company had a balance of $69,383 due to Stephen Keen, who is the Company's Director of Technology and a Director of the Board and his spouse, Brandy Keen, who is Vice President of Sales and a Director of the Board. Of this balance, $69,383 is related to the purchase of Hydro Innovations, LLC. The balance is payable in monthly installments of $5,000. The note may be prepaid in whole or in part at any time.

Director Independence

Our determination of the independence of our directors is made using the definition of "independent" contained in the listing standards of The NASDAQ Stock Market LLC. On the basis of information solicited from each director, the Board of Directors has determined that Timothy Keating and Morgan Paxhia are the only independent directors within the meaning of such rules.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table shows RBSM, LLP billed for the audit and other services for the years ended December 31, 2016 and 2015:

	2016	2015
Audit Fees	$ 94,816*	$ 161,500**
Audit-Related Fees	-	-
Tax Fees	16,200***	-
All Other Fees	-	-
Total	$ 111,016	$ 161,500

* $64,816 relates to 2015.
* * $116,500 relates to 2014.
*** $16,200 was for prior years' tax returns.

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

Audit-Related Fees—This category consists of assurance and related services by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under "Audit Fees." The services for the fees disclosed under this category include consultation regarding our correspondence with the Commission and other accounting consulting.

Tax Fees—This category consists of professional services rendered by our independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

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

Our Board of Directors has adopted a procedure for pre-approval of all fees charged by our independent registered public accounting firm. Under the procedure, the Board approves the engagement letter with respect to audit, tax and review services. Other fees are subject to pre-approval by the Board, or, in the period between meetings, by a designated member of Board. Any such approval by the designated member is disclosed to the entire Board at the next meeting.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements.

The consolidated financial statements and Report of Independent Registered Public Accounting Firm are listed in the "Index to Consolidated Financial Statements" on page 29 and included on pages F-1 through F-26.

ITEM 16. FORM 10-K SUMMARY.

None.

SURNA INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Surna Inc.
Boulder, Colorado.

We have audited the consolidated balance sheets of Surna Inc. (the Company) and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years in the two year period ended December 31, 2016. Surna, Inc's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of, Surna Inc. as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ RBSM, LLP

Larkspur, CA
March 31, 2017

Surna Inc.
Consolidated Balance Sheets

	December 31,	
	2016	**2015**
ASSETS		
Current Assets		
Cash	$ 319,546	$ 330,557
Accounts receivable (net of allowance for doubtful accounts of $90,839 and $40,873, respectively)	47,166	299,194
Note receivable	157,218	207,218
Inventory	747,905	1,261,802
Prepaid expenses	84,976	193,969
Total Current Assets	1,356,811	2,292,740
Noncurrent Assets		
Property and equipment, net	93,565	162,530
Intangible assets, net	667,445	647,464
Total Noncurrent Assets	761,010	809,994
TOTAL ASSETS	$ 2,117,821	$ 3,102,734
LIABILITIES AND SHAREHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 1,337,853	$ 2,066,803
Deferred revenue	1,421,344	986,445
Current portion of long term debt	-	1,551
Amounts due to shareholders	57,398	216,995
Convertible promissory notes, net	761,440	1,227,761
Convertible accrued interest	161,031	201,257
Derivative liability on conversion feature	-	472,967
Derivative liability on warrants	477,814	139,192
Total Current Liabilities	4,216,880	5,312,971
NONCURRENT LIABILITIES		
Convertible promissory notes, net	-	523,822
Convertible accrued interest	-	80,674
Other accrued interest	-	-
Promissory note due shareholders	11,985	-
Vehicle loan	-	32,564
Total Noncurrent Liabilities	11,985	637,060
TOTAL LIABILITIES	4,228,865	5,950,031
SHAREHOLDERS' DEFICIT		
Preferred stock, $0.00001 par value; 150,000,000 shares authorized; 77,220,000 shares issued and outstanding	772	772
Common stock, $0.00001 par value; 350,000,000 shares authorized; 160,744,916 and 125,839,862 shares issued and outstanding, respectively	1,607	1,259
Paid in capital	12,222,789	8,214,271
Accumulated deficit	(14,336,212)	(11,063,599)
Total Shareholders' Deficit	(2,111,044)	(2,847,297)
TOTAL LIABILITIES AND SHAREHOLDERS' DEFICIT	$ 2,117,821	$ 3,102,734

The accompanying notes are integral to the consolidated financial statements

Surna Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31,

	2016	2015
Revenue	$ 7,579,863	$ 7,865,243
Cost of revenue	5,275,968	6,924,402
Gross margin	2,303,895	940,841
Operating expenses:		
Advertising and marketing expenses	149,858	309,620
Product development costs	349,062	707,517
Selling, general and administrative expenses	2,337,892	3,037,547
Total operating expenses	2,836,812	4,054,684
Operating loss	(532,917)	(3,113,843)
Other income (expense):		
Interest and other income (expense), net	40,157	24,547
Interest expense	(373,688)	(873,207)
Amortization of debt discount on convertible promissory notes	(1,529,219)	(2,220,115)
Loss on extinguishment of debt	(338,241)	(78,155)
Loss (gain) on change in derivative liabilities	(538,705)	964,751
Total other income (expense)	(2,739,696)	(2,182,179)
Loss from continuing operations before provision for income taxes	(3,272,613)	(5,296,022)
Provision for income taxes	-	-
Net loss	(3,272,613)	(5,296,022)
Comprehensive loss	$ (3,272,613)	$ (5,296,022)
Loss per common share – basic and dilutive	$ (0.02)	$ (0.04)
Weighted average number of common shares outstanding, basic and dilutive	140,604,764	119,967,118

The accompanying notes are integral to the consolidated financial statements

Surna Inc.
Consolidated Statements of Changes in Shareholders' Deficit
For the years ended December 31, 2016 and 2015

	Preferred Stock		Common Stock		Additional		
	Number of Shares	Amount	Number of Shares	Amount	Paid in Capital	Accumulated Deficit	Shareholders' Deficit
Balance January 1, 2015	77,220,000	$ 772	113,511,250	$ 1,135	$ 4,881,918	(5,767,577)	(883,752)
Common shares issued for conversion of debt and interest, net of unamortized debt discount	-	-	25,169,786	252	1,668,015	-	1,668,267
Reclassification of derivative liability to equity for debt conversion	-	-	-	-	791,409	-	791,409
Reclassification of derivative liability to equity for change in classification	-	-	-	-	119,348	-	119,348
Non-cash settlement of debt to related parties	-	-	-	-	194,958	-	194,958
Imputed interest	-	-	-	-	2,924	-	2,924
Common shares issued for compensation	-	-	539,028	5	45,035	-	45,040
Common shares issued for services	-	-	866,571	9	82,444	-	82,453
Common shares issued for cash, net	-	-	4,556,250	46	427,402	-	427,448
Common shares issued for exercise of stock options	-	-	2,625,000	26	604	-	630
Common shares cancelled with officer termination	-	-	(21,428,023)	(214)	214	-	-
Net loss	-	-	-	-	-	(5,296,022)	(5,296,022)
Balance December 31, 2015	77,220,000	772	125,839,862	1,259	8,214,271	(11,063,599)	(2,847,297)
Common shares issued for conversion of debt and interest, net of unamortized debt discount	-	-	33,365,609	334	3,234,992	-	3,235,326
Reclassification of derivative liability to equity for debt conversion	-	-	-	-	673,050	-	673,050
Common shares issued for compensation	-	-	46,045	-	4,028	-	4,028
Common shares issued for exercise of stock options	-	-	1,493,400	14	342	-	356
Value attributed to modification of warrants	-	-	-	-	96,106	-	96,106
Net loss	-	-	-	-	-	(3,272,613)	(3,272,613)
Balance December 31, 2016	77,220,000	$ 772	160,744,916	$ 1,607	$ 12,222,789	$ (14,336,212)	$ (2,111,044)

The accompanying notes are integral to the consolidated financial statements

Surna Inc.
Consolidated Statements of Cash Flows
For the years ended December 31,

	2016	2015
Cash Flows From Operating Activities:		
Net loss	$ (3,272,613)	$ (5,296,022)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and intangible asset amortization expense	53,084	67,766
Amortization of debt discounts	1,529,219	2,220,115
Amortization of original issue discount on notes payable	-	37,795
Gain on change in derivative liability	538,705	(964,751)
Consulting services paid in stock	-	82,453
Employee compensation paid in stock	4,386	45,040
Non-cash interest expense	-	750,640
Provision for doubtful accounts	50,127	30,873
Loss on extinguishment of debt	338,241	78,155
Loss on sale of assets other	4,280	-
Changes in operating assets and liabilities:		
Accounts and notes receivable	179,793	64,763
Inventory	513,897	(997,771)
Prepaid expenses	131,099	(136,880)
Accounts payable and accrued liabilities	(749,709)	1,654,975
Deferred revenue	434,899	578,246
Accrued interest	373,688	80,760
Deferred compensation	(25,600)	25,600
Other	-	(7,115)
Cash provided by (used in) operating activities	103,496	(1,685,358)
Cash Flows From Investing Activities		
Purchases of intangible assets	(25,292)	-
Purchases of property and equipment	(18,189)	(62,381)
Proceeds from the sale of property equipment	35,100	-
Cash disbursed for note receivable	(80,000)	(160,000)
Payments received on note receivable	130,000	65,000
Other	-	(12,218)
Cash provided by (used in) investing activities	41,619	(169,599)
Cash Flows From Financing Activities		
Proceeds from issuances of convertible notes	-	1,781,250
Payments of financing fees	-	(27,146)
Proceeds from exercises of stock options	-	630
Payments on loans	(34,115)	(145,153)
Payments to related parties	(122,011)	(114,030)
Cash (used in) provided by financing activities	(156,126)	1,495,551
Net decrease in cash	(11,011)	(359,406)
Cash, beginning of period	330,557	689,963
Cash, end of period	$ 319,546	$ 330,557
Supplemental cash flow information:		
Interest paid	$ -	$ 26,126
Non-cash investing and financial activities:		
Conversions of promissory note balances to common stock	$ 3,235,326	$ 1,336,783
Increase in paid in capital in connection with conversions of notes	$ -	$ 1,242,241
Derivative liability on convertible notes and warrants	$ 673,050	$ (1,335,797)
Debt retirement to former Chief Executive Officer	$ -	$ 194,858

The accompanying notes are integral to the consolidated financial statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company:

Surna Inc. incorporated in Nevada on October 15, 2009. On March 26, 2014, we acquired Safari Resource Group, Inc. ("Safari"), a Nevada Corporation, whereby we became the sole surviving corporation after the acquisition of Safari. In July 2014, we acquired 100% of the membership interest in Hydro Innovations, LLC, a Colorado limited liability company, ("Hydro"), pursuant to which Hydro became a wholly-owned subsidiary of the Company. We engineer and manufacture innovative technology and products that address the energy and resource intensive nature of indoor cultivation. Our focus lies in supplying industrial solutions to commercial indoor cannabis cultivation facilities. The engineering team is tasked with creating novel energy and resource efficient solutions, including our signature liquid-cooled climate control platform. Our engineers continuously seek to create technologies that allow growers to easily meet the highly specific demands of a cannabis cultivation environment through temperature, humidity, light, and process control. Our objective is to provide intelligent solutions that improve the quality, control and overall yield and efficiency of indoor cannabis cultivation. We are headquartered in Boulder, Colorado.

The Company's operations exclude the production or sale of marijuana.

History:

On September 1, 2011, Surna Inc. acquired Surna Media, Inc. ("Surna Media") for 20,000,000 shares of its common stock. The merger with Surna Media was accounted for as among entities under common control. Surna Media's predecessor entity, Surna Hong Kong Limited ("Surna HK"), was formed on June 14, 2010. Surna Media was formed October 29, 2010 by the same owners and Surna HK became a wholly-owned subsidiary. Flying Cloud Information Technology Co. Ltd. was incorporated in China in April 2011 as a wholly owned subsidiary of Surna HK ("Flying Cloud"). All of the Surna HK, Surna Media, and Flying Cloud transactions are consolidated with those of the Company beginning at the formation of Surna HK on June 14, 2010. Surna Networks, Inc. ("Surna Networks I") and Surna Networks Ltd. ("Surna Networks II") are wholly owned subsidiaries of the Company, formed on July 19, 2011 and August 2, 2011, respectively. On March 27, 2012, the Company sold Surna Networks I and Surna Networks II to Chan Kam Ming for a total sales price of US$1 and assumption of liability related to those companies. The Company assumed the liabilities of Surna Networks I and Surna Networks II, which totaled US$9,286. All significant intercompany transactions are eliminated. We sold Surna Media and its subsidiaries in 2014.

Financial Statement Presentation:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included.

The accompanying consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has not generated sufficient revenue and has funded its operating losses through the sale of common stock and the issuance of debt. The Company has a limited operating history and its prospects are subject to risks, expenses and uncertainties frequently encountered by companies in the industry. (See Note 2.)

Basis of Consolidation and Reclassifications:

The consolidated financial statements include the accounts of the Company and its controlled and wholly-owned subsidiaries. Intercompany transactions, profit, and balances are eliminated in consolidation.

Certain reclassifications have been made to amounts in prior periods to conform to the current period presentation. All reclassifications have been applied consistently to the periods presented. The reclassifications had no impact on net loss or total assets and liabilities.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and that affect the reported amounts of revenue and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that we believe 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 could differ from those estimates. In addition, any change in these estimates or their related assumptions could have an adverse effect on our operating results. Key estimates include: valuation of derivative liabilities, valuation of intangible assets, and valuation of deferred tax assets and liabilities.

Cash and Cash Equivalents:

All highly liquid investments with original maturities of three months or less at the date of purchase are considered to be cash equivalents. The Company may, from time to time, have deposits in one financial institution that exceeds the federally insured amount.

Accounts Receivable and Allowance for Doubtful Accounts:

Accounts receivable are recorded at invoiced amount and generally do not bear interest. An allowance for doubtful accounts is established, as necessary, based on past experience and other factors, which, in management's judgment, deserve current recognition in estimating bad debts. Such factors include growth and composition of accounts receivable, the relationship of the allowance for doubtful accounts to accounts receivable and current economic conditions. The determination of the collectability of amounts due from customer accounts requires the Company to make judgments regarding future events and trends. Allowances for doubtful accounts are determined based on assessing the Company's portfolio on an individual customer and on an overall basis. This process consists of a review of historical collection experience, current aging status of the customer accounts, and the financial condition of the Company's customers. Based on a review of these factors, the Company establishes or adjusts the allowance for specific customers and the accounts receivable portfolio as a whole. As of December 31, 2016 and 2015 the allowance for doubtful accounts was $90,839 and $40,873, respectively.

Inventory:

Inventory is stated at the lower of cost or market. The majority of inventory is valued based on a first-in, first-out ("FIFO") basis. Lower of cost or market is evaluated by considering obsolescence, excessive levels of inventory, deterioration and other factors. Adjustments to reduce the cost of inventory to its net realizable value, if required, are made for estimated excess, obsolescence or impaired inventory. Excess and obsolete inventory is charged to cost of revenue and a new lower-cost basis for that inventory is established and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

Property and Equipment:

Property and equipment are stated at cost. When retired or otherwise disposed, the related carrying value and accumulated depreciation are removed from the respective accounts and the net difference less any amount realized from disposition, is reflected in earnings. For financial statement purposes, property and equipment are recorded at cost and depreciated using the straight-line method over their estimated useful lives, which is generally five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the life of the lease. Upon sale or retirement of assets, the cost and related accumulated depreciation and amortization are removed from the balance sheet and the resulting gain or loss is reflected in operations. Maintenance and repairs are charged to operations as incurred.

Impairment of Long-Lived Assets:

Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. When such an event occurs, management determines whether there has been impairment by comparing the anticipated undiscounted future net cash flows to the related asset's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of the asset. The Company has not identified any such impairment losses to date.

Goodwill and Other Intangible Assets:

Goodwill is reviewed for impairment annually or more frequently when events or changes in circumstances indicate that fair value of the reporting unit has been reduced to less than its carrying value. The Company performs its impairment test annually during the fourth quarter. First, the Company assesses qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. If deemed necessary, a two-step test is used to identify the potential impairment and to measure the amount of goodwill impairment, if any. The first step is to compare the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired; otherwise, there is an indication that goodwill may be impaired and the amount of the loss, if any, is measured by performing step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of goodwill. We completed this assessment as of December 31, 2016, and concluded that no impairment existed.

Separable intangible assets that have finite useful lives continue to be amortized over their respective useful lives.

All of the Company's identifiable intangible assets are subject to amortization on a straight-line basis over their estimated useful lives. Identifiable intangibles consist of intellectual property such as patents and trademarks, and capitalized software. Identifiable intangibles are also subject to evaluation for potential impairment if events or circumstances indicate the carrying value may not be recoverable.

Fair Value Measurement:

The accounting standards regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy for disclosures of fair value measurement and enhance disclosure requirements for fair value measures.

ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 - inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 - inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

On a Recurring Basis:

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. The Company has determined that the convertible debt instruments outstanding as of the date of these financial statements include an exercise price "reset" adjustment that qualifies as derivative financial instruments under the provisions of ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock ("ASC 815-40"). See Note 10 for discussion of the impact the derivative financial instruments had on the Company's consolidated financial statements and results of operations.

Financial assets and liabilities carried at fair value, measured on a recurring basis as follows:

	December 31, 2016			
Description	Level 1	Level 2	Level 3	Gains (Losses)[1]
Derivative liability on conversion feature	$ -	$ -	$	(200,083)
Derivative liability on warrants	-	-	477,814	(338,622)
Total	$ -	$ -	$ 477,814	$ (538,705)

(1) The loss on change in derivative liabilities of $538,705 presented in the statement of operations for the year ended December 31, 2016 also includes gains on derivatives associated with convertible promissory note balances outstanding at various dates during the year ended December 31, 2016, which were converted to common stock prior to December 31, 2016.

	December 31, 2015			
Description	Level 1	Level 2	Level 3	Gains (Losses)[2]
Derivative liability on conversion feature	$ -	$ -	$ 472,967	$ 383,049
Derivative liability on warrants	-	-	139,192	106,829
Total	$ -	$ -	$ 612,159	$ 489,878

(2) The gain on change in derivative liabilities of $964,751 presented in the statement of operations for the fiscal year ended December 31, 2015 also includes gains on derivatives associated with convertible promissory note balances outstanding at various dates during fiscal year 2015, which were converted to common stock prior to December 31, 2015.

Our Level 3 fair value liabilities represent contingent consideration recorded related to the embedded conversion features in the convertible notes issued in 2014 and 2015. The change in the balance of the conversion feature derivative liabilities and warrant liabilities during the fiscal years ended December 31, 2016 and 2015 was calculated using the Black-Scholes Model, which is classified as gain on change in derivative liabilities in the consolidated statement of operations. The Black-Scholes Model does take into consideration the Company’s stock price, historical volatility, and risk-free interest rate, which do have observable Level 1 or Level 2 inputs.

During the year ended December 31, 2016, the Company converted all of the Series 3 and 4 convertible promissory notes (see Note 9) issued in 2015 into common stock, which gave rise to the fair value liabilities for the embedded conversion features. At conversion, the balance of the derivative liability of, $673,050 has been credited to additional paid in capital in the consolidated balance sheet.

During the year ended December 31, 2015, the Company converted all of the Series 1 convertible promissory notes (see Note 9) issued in 2014 into common stock, which gave rise to the fair value liabilities for the embedded conversion features. At conversion, the balance of the derivative liability of, $791,409 has been credited to additional paid in capital in the consolidated balance sheet. Additionally, the Series 2 convertible promissory notes derivative liability balance of $119,348 was also credited to additional paid in capital. The Series 2 notes embedded conversion features were classified as derivative liabilities solely due to “sequencing” such that, when the Series 1 notes were converted the Series 2 notes are no longer derivatives.

On a Non-Recurring Basis:

In accordance with the provisions of ASC Topic 350, Intangibles – Goodwill and Other ("ASC Topic 350"), the Company estimates the fair value of reporting units, utilizing unobservable Level 3 inputs. Level 3 inputs require significant management judgment due to the absence of quoted market prices or observable inputs for assets of a similar nature. The Company utilizes a discounted cash flow analysis to estimate the fair value of reporting units utilizing unobservable inputs. The fair value measurements for goodwill under the step-one and step-two analysis of the quantitative goodwill impairment test are classified as Level 3 inputs.

Intangible assets that are amortized are evaluated for recoverability whenever adverse effects or changes in circumstances indicate that the carrying value may not be recoverable. The recoverability test consists of comparing the undiscounted projected cash flows with the carrying amount. Should the carrying amount exceed undiscounted projected cash flows, an impairment loss would be recognized to the extent the carrying amount exceeds fair value. For the Company's indefinite-lived intangible asset, the impairment test consists of comparing the fair value, determined using the market value method, with its carrying amount. An impairment loss would be recognized for the carrying amount in excess of its fair value. As of December 31, 2016, the Company concluded that no indicators of impairment relating to intangible assets or goodwill existed and an interim test was not performed.

Due to their short-term nature, the carrying values of cash and equivalents, accounts receivable, accounts payable, and accrued expenses, approximate fair value. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of the notes payable approximates fair value.

There were no changes in valuation technique from prior periods.

Derivative Financial Instruments:

We evaluate our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the statements of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes Option Pricing Model to value the derivative instruments. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

We have determined that certain convertible debt instruments outstanding as of the date of these financial statements include an exercise price "reset" adjustment that qualifies as derivative financial instruments under the provisions of ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock ("ASC 815-40"). Certain of the convertible debentures have a variable exercise price, thus are convertible into an indeterminate number of shares for which we cannot determine if we have sufficient authorized shares to settle the transaction with. Accordingly, the embedded conversion option is a derivative liability and is marked to market through earnings at the end of each reporting period.

We evaluate the application of ASC 815-40-25 to the warrants to purchase common stock issued with the convertible notes, and determined that the warrants were required to be accounted for as derivatives due to the provisions in certain convertible notes that result in our being unable to determine if we have sufficient authorized shares to settle the instrument. See Note 10 for discussion of the impact the derivative financial instruments had on the Company's consolidated financial statements and results of operations.

Accordingly, the embedded conversion option and the warrants are derivative liabilities and are marked to market through earnings at the end of each reporting period. Any change in fair value during the period recorded in earnings as "Other income (expense) - gain (loss) on change in derivative liabilities."

Revenue Recognition:

We recognize revenue from the sale of our products, which we primarily manufacture. Revenue is recognized when products are shipped or delivered and title passes to the customer, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Sales of our products are not subject to regulatory requirements that vary from state to state. We generally do not provide our customers with a contractual right of return. In certain limited circumstances, revenue could be recognized using the percentage-of-completion method as performance occurs. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

Sales arrangements sometimes involve delivering multiple elements, including services such as installation. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or a management estimate of the relative selling price. Revenue is recognized individually for delivered elements only if they have value to the customer on a stand-alone basis and the performance of the undelivered items is probable and substantially in our control, or the undelivered elements are inconsequential or perfunctory and there are no unsatisfied contingencies related to payment. We had no revenue arise from qualifying sales arrangements that include the delivery of multiple elements in fiscal year 2015 or 2014. The vast majority of these deliverables are tangible products, with a small portion attributable to installation. We do not provide any separate maintenance. Generally, contract duration is short term and cancellation, termination or refund provisions apply only in the event of contract breach, and have historically not been invoked.

The Company provides climate control equipment and installation services designed for the controlled environment agriculture industry through construction-type contracts with contract terms typically less than one year. Advance payments received from customers are included in deferred revenue, a component of current liabilities, until such time that all criteria are met, as noted above, and revenue is recognized.

Shipping and handling costs are reported within cost of sales in the consolidated statements of operations.

The Company accounts for sales taxes and other related taxes on a net basis, excluding such taxes from revenue.

Product Warranty:

Products are generally subject to a warranty period of the lesser of 12 months from start-up or 18 months from shipment. Warranty provides for the repair, rework, or replacement of products (at the Company's option) that fail to perform within stated specification. We assessed the historical claims and, in 2015, claims were insignificant. In 2016, product warranty claims were approximately 1% of total annual revenue. We will continue to assess the need to record a warranty accrual at the time of sale going forward. Accordingly, a provision of $85,000 and $0 was established for 2016 and 2015 respectively.

Concentrations:

Two customers accounted for 14% and 10% of the Company's revenue for the year ended December 31, 2016. One customer accounted for 10% of the Company's revenue for the year ended December 31, 2015.

The Company's accounts receivable from two customers make up 39% and 29% of the total balance as of December 31, 2016. The Company's accounts receivable from four customers made up 89% of the total balance as of December 31, 2015.

Product Development:

The Company accounts for product development cost in accordance with Accounting Standards Codification subtopic 730-10, Research and Development ("ASC 730-10"). ASC 730-10 requires such costs be charged to expenses as incurred. Accordingly, internal product development costs are expensed as incurred. Third-party product developments costs are expensed when the contracted work has been performed or as milestone results have been achieved. For the years ended December 31, 2016 and 2015, we incurred $349,062 and $705,517, respectively, on product development, which is included in the consolidated statements of operations.

Accounting for Stock-Based Compensation:

Share-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee's service period. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award.

We determined that the Black-Scholes Option Pricing Model is the most appropriate method for determining the estimated fair value for stock options or warrants. The Black-Scholes Model requires the use of highly subjective and complex assumptions that determine the fair value of share-based awards, including the equity instrument's expected term and the price volatility of the underlying stock.

Equity instruments issued to nonemployees are recorded at their fair value on the measurement date and are subject to periodic adjustment as the underlying equity instruments vest.

Share-based payments to employees for compensation and nonemployees for services provided to the Company totaled $4,028 and $127,493 for the years ended December 31, 2016 and 2015, respectively.

Income Taxes:

The provision for income taxes is determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from differences between the financial and tax basis of the Company's assets and liabilities and are adjusted for changes in tax rates and tax laws when changes are enacted. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

We must assess the likelihood that the Company's deferred tax assets will be recovered from future taxable income, and to the extent the Company believes that recovery is not likely, we establish a valuation allowance. Management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against the net deferred tax assets. We recorded a full valuation allowance as of December 31, 2016 and 2015. Based on the available evidence, the Company believes it is more likely than not that it will not be able to utilize its deferred tax assets in the future. We intend to maintain valuation allowances until sufficient evidence exists to support the reversal of such valuation allowances. We make estimates and judgments about its future taxable income that are based on assumptions that are consistent with our plans. Should the actual amounts differ from our estimates, the carrying value of our deferred tax assets could be materially impacted.

We recognize in the financial statements the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of operating expense. We do not believe there are any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date. There were no penalties or interest liabilities accrued as of fiscal year end December 31, 2016 or 2015, nor were any penalties or interest costs included in expense for the years ended December 31, 2016 and 2015.

The years under which we conducted our evaluation coincided with the tax years currently still subject to examination by major federal and state tax jurisdictions, those being 2010 through 2016 for federal purposes and 2014 through 2016 for state purposes.

Comprehensive Income (Loss):

Comprehensive income (loss) represents the change in shareholders' equity (deficit) of an enterprise, other than those resulting from shareholder transactions. Accordingly, comprehensive income (loss) may include certain changes in shareholders' equity (deficit) that are excluded from net income (loss). For the years ended December 31, 2016 and 2015, the Company's comprehensive loss is the same as its net loss.

Basic and Diluted Net Loss per Common Share:

Basic net loss per common share is computed by dividing net loss by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive. As of December 31, 2016, the Company had approximately 11,400,000 common stock equivalents.

Commitments and Contingencies:

In the normal course of business, the Company is subject to loss contingencies, such as legal proceedings and claims arising out of its business, that cover a wide range of matters, including, among others, government investigations, environment liability and tax matters. An accrual for a loss contingency is recognized when it is probable that an asset had been impaired or a liability had been incurred and the amount of loss can be reasonably estimated.

Other Risks and Uncertainties:

To achieve profitable operations, the Company must successfully develop, manufacture, and market its products. There can be no assurance that any such products can be developed or manufactured at an acceptable cost and with appropriate performance characteristics, or that such products will be successfully marketed. These factors could have a material adverse effect upon the Company's financial results, financial position, and future cash flows.

The Company is subject to risks common to companies who supply the cannabis industry including, but not limited to, new technological innovations, dependence on key personnel, protection of proprietary technology, compliance with government regulations, uncertainty of market acceptance of products, product liability, and the need to obtain additional financing. The Company's ultimate success is dependent upon its ability to raise additional capital and to successfully develop and market its products.

Segment Information:

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its senior management team. The Company has one operating segment that is dedicated to the manufacture and sale of its products.

Recent Accounting Pronouncements:

In January 2017, the FASB issued Accounting Standards Update No. 2017-01, *Clarifying the Definition of a Business* ("ASU 2017-01"). The standard clarifies the definition of a business by adding guidance to assist entities in evaluating whether transactions should be accounted for as acquisitions of assets or businesses. ASU 2017-01 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Under ASU 2017-01, to be considered a business, the assets in the transaction need to include an input and a substantive process that together significantly contribute to the ability to create outputs. Prior to the adoption of the new guidance, an acquisition or disposition would be considered a business if there were inputs, as well as processes that when applied to those inputs had the ability to create outputs. Early adoption is permitted for certain transactions. Adoption of ASU 2017-01 may have a material impact on the Company's consolidated financial statements if it enters into future business combinations.

In January 2017, the FASB issued Accounting Standards Update No. 2017-04, *Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. ASU 2017-04 is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force).* This ASU requires changes in the presentation of certain items in the statement of cash flows including but not limited to debt prepayment or debt extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. This guidance will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2017, will require adoption on a retrospective basis and will be effective for the Company on January 1, 2018. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments within this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Entities may early adopt the amendments within this ASU but not prior to the fiscal years beginning after December 15, 2018, including the interim periods within those fiscal years. An entity will apply the amendments in this Update through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (that is, a modified-retrospective approach). However, a prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. This ASU is designed to address simplification of several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption of this ASU is permitted and would be applied on a retrospective basis back to the beginning of fiscal year that included any such interim period in which early adoption was elected. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842) which requires companies leasing assets to recognize on their balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on contracts longer than one year. The lessee is permitted to make an accounting policy election to not recognize lease assets and lease liabilities for short-term leases. How leases are recorded on the balance sheet represents a significant change from previous GAAP guidance in Topic 840. ASU 2016-02 maintains a distinction between finance leases and operating leases similar to the distinction under previous lease guidance for capital leases and operating leases. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position. ASU 2016-02 is effective for fiscal periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this Update address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. ASU 2015-11 simplifies the subsequent measurement of inventory by replacing today's lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out (LIFO) and the retail inventory method (RIM). Entities that use LIFO or RIM will continue to use existing impairment models (e.g., entities using LIFO would apply the lower of cost or market test). The guidance is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, issued as a new Topic, ASC Topic 606. The new revenue recognition standard supersedes all existing revenue recognition guidance. Under this ASU, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2015-14, issued in August 2015, deferred the effective date of ASU 2014-09 to the first quarter of 2018, with early adoption permitted in the first quarter of 2017. The Company is currently evaluating the effect that adopting this new accounting guidance will have on its consolidated results of operations, cash flows and financial position.

In March, April, May, and December 2016, the FASB issued the following updates, respectively, to provide supplemental adoption guidance and clarification to ASU 2014-09. These standards must be adopted concurrently upon the adoption of ASU 2014-09. We are currently evaluating the potential effects of adopting the provisions of these updates.

- ASU No. 2016-08, Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)
- ASU No. 2016-10, Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing;
- ASU No. 2016-12, Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients; and
- ASU No. 2016-19, Technical Corrections and Improvements

NOTE 2 - GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has experienced recurring losses since its inception. The Company incurred a net loss of approximately $3,300,000 for the year ended December 31, 2016, and had an accumulated deficit of approximately $14,340,000 as of December 31, 2016. Since inception, the Company has financed its activities principally through debt and equity financing. Management expects to incur additional losses and cash outflows in the foreseeable future in connection with development of its operating activities.

The Company's consolidated financial statements have been presented on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The Company is subject to a number of risks similar to those of other similar stage companies, including dependence on key individuals, successful development, marketing and branding of products; uncertainty of product development and generation of revenues; dependence on outside sources of financing; risks associated with research, development; dependence on third-party content providers, suppliers and collaborators; protection of intellectual property; and competition with larger, better-capitalized companies. Ultimately, the attainment of profitable operations is dependent on future events, including obtaining adequate financing to fulfil its development activities and generating a level of revenues adequate to support the Company's cost structure. To support the Company's financial performance, management has undertaken several initiatives, including the raising of additional financing subsequent to year end:

In November and December 2016 and January and February 2017, the Company was successful in negotiating the extinguishing its convertible promissory notes with the issuance of shares of its common stock (See Note 16 - Subsequent Events.

In March 2017, the Company raised $2,685,000 through a private placement sale of 16,781,250 shares of the Company's common stock to accredited investors (see Note 16 - Subsequent Events).

There can be no assurance however that such financing will be available in sufficient amounts, when and if needed, on acceptable terms or at all. If results of operations for 2017 do not meet management's expectations, or additional capital is not available, management believes it has the ability to reduce certain expenditures. The precise amount and timing of the funding needs cannot be determined accurately at this time, and will depend on a number of factors, including the market demand for the Company's products and services, the quality of product development efforts, management of working capital, and continuation of normal payment terms and conditions for purchase of services. The Company is uncertain whether its cash balances and cash flow from operations will be sufficient to fund its operations for the next twelve months. If the Company is unable to substantially increase revenues, reduce expenditures, or otherwise generate cash flows for operations, then the Company will need to raise additional funding to continue as a going concern through its major shareholder(s), or through other avenues.

NOTE 3 - INVENTORY

Inventory consisted of the following as of December 31,:

	2016	2015
Finished goods	$ 591,564	$ 619,319
Work in progress	16,518	43,466
Raw materials	187,192	599,017
Reserve for Excess & Obsolete Inventory	(47,369)	-
Total inventory	$ 747,905	$ 1,261,802

Overhead expenses of $26,764 and $73,125 were included in the inventory balance as of December 31, 2016 and 2015, respectively. This includes depreciation expense of $417 and $5,869 as of December 31, 2016 and 2015, respectively.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31,:

	2016	2015
Furniture and equipment	$ 171,709	$ 168,899
Molds	31,063	31,063
Vehicles	15,000	62,286
Leasehold Improvements	38,101	35,804
	255,873	298,052
Accumulated depreciation	(162,308)	(135,522)
Property and equipment, net	$ 93,565	$ 162,530

Depreciation expense amounted to $55,296 for the year ended December 31, 2016, of which $8,349 was allocated to cost of revenue and inventory. Depreciation expense amounted to $59,168 for the year ended December 31, 2015, of which $16,322 was allocated to cost of revenue and inventory.

NOTE 5 - INTANGIBLE ASSETS

Intangible assets consist of the following as of December 31,:

	2016	2015
Intellectual property	$ 48,004	$ 22,712
Accumulated amortization	(11,623)	(6,312)
	36,381	16,400
Goodwill	631,064	631,064
Intangible assets, net	$ 667,445	$ 647,464

Goodwill of an acquired company is neither amortized nor deductible for tax purposes and is primarily related to expected improvements in sales growth from future product and service offerings, new customers and productivity.

Intangible assets have an estimated life of 5 years. Amortization expense for the intangible assets was $5,311 and $4,100 for the years ended December 31, 2016 and 2015, respectively.

Expected future amortization expense of acquired intangible assets as of December 31, 2016 is as follows:

Year Ended December 31,	
2017	$ 4,757
2018	4,757
2019	4,757
2020	4,757
Total	$ 19,028

NOTE 6 - PATENTS AND TRADEMARKS

Surna relies on a combination of patent and trademark rights, trade secrets, laws that protect intellectual property, confidentiality procedures, and contractual restrictions with its employees and others to establish and protect its intellectual property rights. As of December 31, 2016, the Company has eight pending patent applications and four issued patents. The pending patent applications are a combination of PCT, utility and design patent applications that are directed to certain core Company technology. The Company's four issued patents are U.S. design patents related to the Company's Reflector. The U.S. design patents provide protection for 14 years from the date of issue. Utility patents provide protection for 20 years from the earliest non-provisional application filing date. The Company has registered trademarks for its core brand ("Surna"), including the wordmark alone, the associated logo, and the combined wordmark and logo in the United States. The wordmark is also registered in the European Union and is pending registration in Canada. Subject to ongoing use and renewal, trademark protection is potentially perpetual.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following as of December 31,:

	2016	2015
Accounts payable	$ 1,020,224	$ 1,849,544
Sales commissions payable	40,736	73,711
Sales tax payable	23,631	65,758
Accrued payroll liabilities	43,573	34,965
Other accrued expenses	209,689	42,825
Total	$ 1,337,853	$ 2,066,803

NOTE 8 - RELATED PARTY TRANSACTIONS

In July of 2014 the Company issued a $250,000 promissory note (“Hydro2 Note”) to Stephen and Brandy Keen. Stephen Keen was the Chief Executive Officer at the time of the note, and is now Director of Technology, and his wife, Brandy, who is Vice President of Sales as part of the purchase price of Hydro Innovations. On April 15, 2016 (the “Effective Date”) the parties entered into an amendment to the original agreement (the “Amendment”). In accordance with the terms of the Amendment, the Company made a payment of $100,000 on or around the Effective Date which resulted in the reduction of the outstanding balance from $194,514 to $94,514. Additionally, pursuant to the Amendment, the Company was not obligated to make further payments until July 2016 at which time the Company resumed monthly payments equal to $5,000 per month. The interest rate remained at 6% per annum. The parties agreed that the note no longer had to be paid in full by July 18, 2016 and no default had occurred. As of December 31, 2016, the Hydro2 Note had a balance of $69,383 with $57,398 and $11,985 reflected on the balance sheet as current and long-term respectively.

As of December 31, 2015, there was a deferred compensation balance of $25,600 due to Stephen and Brandy Keen. This balance was paid in full during 2016.

During the year ended December 31, 2015, $194,958 of debt due to the Company’s former Chief Executive Officer, Tom Bollich, was retired for a one-time, immediate cash payment of $100. The related party extinguishment has been recognized as a credit to additional paid in capital.

NOTE 9 - CONVERTIBLE PROMISSORY NOTES

The following table summarizes the convertible promissory notes for the years ended December 31, 2016 and 2015:

	Series 1	Series 2	Series 3	Series 4	Total
Balance January 1, 2015	$ 1,336,783	$ 1,625,000	$	$	$ 2,961,783
Additions		911,250	711,000	103,273	1,725,523
Conversions	(1,336,783)				(1,336,783)
Balance December 31, 2015	-	2,536,250	711,000	103,273	3,350,523
Discounts and deferred finance charges					(1,598,940)
Convertible notes payable, net					1,751,583
Less current portion - December 31, 2015					1,227,761
Long-term portion - December 31, 2015					$ 523,822
Balance January 1, 2016					$ 3,350,523
Conversions					(2,570,523)
Balance December 31, 2016					780,000
Discounts and deferred finance charges					(18,560)
Convertible notes payable, net					761,440
Less current portion - December 31, 2016					761,440
Long-term portion - December 31, 2016					$ -

Conversions:

During the year ended December 31, 2015, the Company issued 25,169,786 shares of its common stock in connection with conversions of the Series 1 Notes for $1,336,783 principal amount and $216,141 accrued interest. The total of $1,668,267 was allocated to common stock and additional paid in capital because of the conversion.

During the year ended December 31, 2016, the Company issued 17,888,828 shares of its common stock in connection with the conversions of the Series 3 & 4 notes for $814,273 and $74,632 accrued interest. The total of $888,905 was allocated to common stock and additional paid in capital as a result of the conversion.

The Company entered into negotiations with certain of the Series 4 noteholders for them to convert principal and interest into shares of the Company's common stock. As an incentive for them to convert, the Company agreed to amend the notes and the warrants

During the year ended December 31, 2016, the Company entered into note conversion and warrant amendment agreements (each, an "Agreement" and together, the "Agreements") to: (i) amend the convertible promissory notes – series 2 (Original Notes") to reduce the conversion price of such holder's Original Note and simultaneously cause the conversion of the outstanding amount under such Original Note into shares of common stock of the Company ("Conversion Shares"); and (ii) reduce the exercise price of the original warrant ("Original Warrants" and together with an amended notes and the amended warrants, the "Amendments"). Each Agreement has been privately negotiated so the terms vary. Pursuant to the Agreements, the Original Notes have been amended to reflect a reduced conversion price per share between $0.09 and $0.22. Additionally, pursuant to the Agreements**,** the Original Warrants have been amended to reflect a reduced exercise price per share between $0.30 and $0.35, except for one Original Warrants to reflect a reduced exercise price of $0.15 per share.

Pursuant to the Agreements, the Company has (i) converted Original Notes with an aggregate outstanding principal amount of approximately $1,756,250 and accrued interest of $399,063, of the total principal amount under the Original Notes, (ii) issued 14,871,781 shares of the Company's common stock in connection with the conversion of such Original Notes and (iii) amended Original Warrants to reduce their exercise price.

The Company has accounted for the Amended agreements as debt extinguishment in accordance with ASC 470 - Debt section 470-50-40-2 where by the difference between the reacquisition price of the debt and the net carrying amount of the extinguished debt was recognized as a loss during for the year ended December 31, 2016. The following details the calculation of the loss on extinguishment of the notes payable – series 2:

Carrying Amount of debt		
Principal converted	$	1,756,250
Interest converted		399,063
Unamortized debt discount		(51,208)
		2,104,105
Reacquisition price of debt		
Fair value of shares issued		2,346, 240
Warrant modification value		96,106
		2,442,346
Loss on Extinguishment	$	(338,241)

Convertible Promissory Notes – Series 1

During the period ended December 31, 2014, the Company issued Series 1 convertible promissory notes ("Series 1 Notes") in the aggregate principal amount of $1,336,783. The Series 1 Notes (i) were unsecured, (ii) bore interest at the rate of 10% per annum, and (iii) were due two years from the date of issuance. The Series 1 Notes were convertible at any time at the option of the investor into a number of shares of the Company's common stock that is determined by dividing the amount to be converted by the lesser of (i) $1.00 per share or (ii) eighty percent (80%) of the prior thirty-day weighted average market price for the Company's common stock. During the fiscal year ended December 31, 2015, all of the Series 1 Notes were converted into 25,169,786 shares of common stock.

Due to the variable conversion price, the number of shares issuable upon conversion was variable and the fact that there was no cap on the number of shares that could have been issued in exchange for these convertible promissory notes, the Company determined that the conversion feature was considered a derivative liability. The accounting treatment of derivative financial instruments requires that the Company record the fair value of the derivatives as of the inception date of the convertible promissory notes and to adjust the fair value as of each subsequent balance sheet date. Upon the issuance of the Series 1 Notes, the Company determined a fair value of $1,324,283 of the embedded derivative. The fair value of the embedded derivative was determined using intrinsic value up to the face amount of the Series 1 Notes.

The initial fair value of the embedded debt derivative of $1,324,283 was allocated as a debt discount and a conversion feature derivative liability. The debt discount was being amortized over the two-year term of the Series 1 Notes. Upon conversion of each Series 1 Note, the unamortized portion of the debt discount was recorded as amortization of debt discount on convertible notes. The Company recognized a charge of $916,094 for the year ended December 31, 2015 for amortization of this debt discount.

Convertible Promissory Notes – Series 2

In October 2014, the Company engaged a placement agent to act on a "best efforts" basis for the Company in connection with the structuring, issuance, and private placement for the sale of debt and/or equity securities. The Company offered up to 60 investment units (each, a "Unit") with each Unit sold at a price of $50,000 and consisting of (i) two hundred fifty thousand (250,000) shares of the Company's common stock, par value $0.00001; (ii) a $50,000 10% convertible promissory note, ("Series 2 Note"); and (iii) warrants for the purchase of 50,000 shares of the Company's common stock. The Series 2 Notes (i) are unsecured, (ii) bear interest at the rate of 10% per annum, and (iii) are due two years from the date of issuance. The Series 2 Notes are convertible after 360 days from the issuance date at the option of the investor into a number of shares of the Company's common stock that is determined by dividing the amount to be converted by the $0.60 conversion price. If not converted, the debt is payable in full twenty-four months from the issuance date. Additionally, the entire principal amount due on each Series 2 Note shall be automatically converted into common stock at the automatic conversion price (the greater of $0.50 per share or 75% of the public offering price per share) without any action of the purchaser on the earlier of: (x) the date on which the Company closes on a financing transaction involving the sale of the Company's common stock at a price of no less than $2.00 per share with gross proceeds to the Company of no less than $5,000,000; or (y) the date which is three (3) days after the common stock shall have traded at a VWAP of at least $2.00 per share for a period of ten (10) consecutive trading days. The Company raised $2,536,250 from the sale of these Units.

The gross proceeds from the sale of the Series 2 Notes are recorded net of a discount related to the conversion feature of the embedded conversion option. When the fair value of conversion options is in excess of the debt discount the amount has been included as a component of interest expense in the statement of operations. The fair value of the embedded conversion option and the fair value of the warrants underlying the Series 2 Note issued at the time of their issuance were calculated pursuant to the Black-Scholes Model. The fair value was recorded as a reduction to the Series 2 Notes payable and was charged to operations as interest expense in accordance with the effective interest method within the period of the Series 2 Notes. Transaction costs are apportioned to Series 2 Notes payable, common stock, warrants and derivative liabilities. The portion of transaction costs attributed to the conversion feature, warrants and common stock are immediately expensed, because the derivative liabilities are accounted for at fair value through the statement of operations. Any non-cash issuance costs are accounted for separately and apart from the allocation of proceeds. However, if the non-cash issuance costs are paid in the form of convertible instruments, the convertible instruments issued are subject to the same accounting guidance as those sold to investors after first applying the guidance of ASC 505-50 (Stock-Based Compensation Issued to Nonemployees). There were no non-cash issuance costs.

Convertible Notes – Series 3

Starting in the third fiscal quarter of 2015, the Company entered into Securities Purchase Agreements (the "SPAs") with three accredited investors (each a "Purchaser" and together the "Purchasers"), pursuant to which the Company sold and the Purchasers purchased convertible notes with a one year term in the aggregate original principal amount of $711,000, with an aggregate original issue discount of $61,000 (each a "Note" and together the "Notes"), and warrants to purchase up to an aggregate of 2,625,000 shares of the Company's common stock, subject to adjustment, for aggregate cash proceeds of $656,250. The conversion price is equal to 80% of the lowest trading price of our common stock as reported on the OTCQB for the fifteen prior trading days. These convertible notes and the Amended 2015 Note (see Note 9) have an embedded conversion option that qualifies for derivative accounting and bifurcation under ASC 815-15 Derivatives and Hedging. Pursuant to ASC 815, "Derivatives and Hedging", the Company recognized the fair value of the embedded conversion feature as a derivative liability upon issuance of the Notes.

The following table outlines the key terms of the Notes:

	Note 1	Note 2	Note 3	Note 4	Note 5	Total
Term	1 year	1 year	1 year	1 year	1 year	
Origination Date	Jul 2015	Jul 2015	Sept 2015	Sept 2015	Sept 2015	
Cash Received	$ 150,000	$ 100,000	$ 200,000	$ 100,000	$ 100,000	$ 650,000
Note Face Value	$ 165,000	$ 106,000	$ 220,000	$ 110,000	$ 110,000	$ 711,000
Original Issue Discount	$ 15,000	$ 6,000	$ 20,000	$ 10,000	$ 10,000	$ 61,000
Financing Expense	$ -	$ -	$ 6,000	$ 3,000	$ 13,000	$ 22,000
Interest Rate	10%	11%	10%	10%	10%	
Conversion % of Stock Value	80%	80%	80%	80%	80%	
Share Reserve Minimum	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	50,000,000
Warrants	500,000	375,000	750,000	500,000	500,000	2,625,000
Warrant Exercise Price	$ 0.25	$ 0.25	$ 0.25	$ 0.25	$ 0.25	
Warrant Term	5 Years	5 Years	5 Years	5 Years	5 Years	

The gross proceeds from the sale of the debentures are recorded net of a discount of related to the embedded conversion feature. When the fair value of conversion options is in excess of the debt discount the amount has been included as a component of interest expense in the statement of operations. During the year ended December 31, 2015, the Company recorded $373,881 of interest expense relating to the excess fair value of the conversion option over the face value of the debentures. The fair value of the embedded conversion option and the warrants associated with the promissory notes at the time of their issuance was calculated pursuant to the Black-Scholes Model. The fair value was recorded as a reduction to the promissory notes payable and was charged to operations as interest expense in accordance with effective interest method within the period of the promissory notes. Transaction costs are apportioned to the debt liability, common stock and derivative liabilities. The portion of transaction costs attributed to the conversion feature, warrants and common stock are immediately expensed, because the derivative liabilities are accounted for at fair value through the statement of operations. Any non-cash issuance costs are accounted for separately and apart from the allocation of proceeds. However, if the non-cash issuance costs are paid in the form of convertible instruments, the convertible instruments issued are subject to the same accounting guidance as those sold to investors after first applying the guidance of ASC 505-50 (Stock-Based Compensation Issued to Nonemployees). There were no non-cash issuance costs.

Upon issuance of the Notes, the Company determined a fair value of $1,023,881 for the derivative liabilities. The fair value of the warrants was determined to be $246,020 and the fair value of the conversion feature was $777,861. The aggregate debt discount is being amortized over the one year term of the convertible promissory notes.

Convertible Note – Series 4

On December 18, 2015, the July 2015 Secured Note (see Note 9) balance of $103,319 ($100,273 principal and accrued interest of $3,046) was mutually extended to a new Maturity Date from December 22, 2015 to April 30, 2016 (the “Amended 2015 Note”). In consideration of the extension the Company amended the terms to include a conversion feature. The Amended 2015 Note is convertible into shares of our common stock at any time following the Extension and Amendment Agreement date. The conversion price is equal to 70% of the lowest trading price of our common stock as reported on the OTCQB for the twenty prior trading days.

The Amended 2015 Note has an embedded conversion option that qualifies for derivative accounting and bifurcation under ASC 815-15 Derivatives and Hedging. Pursuant to ASC 815, “Derivatives and Hedging”, the Company recognized the fair value of the embedded conversion feature as a derivative liability when the Amended 2015 Note became convertible on December 18, 2015. The increase in the fair value of the embedded note conversion liability was $78,155, calculated using the Black-Scholes Option Pricing Model. In accordance with ASC 470, since the present value of the cash flows under the new debt instrument was at least ten percent different from the present value of the remaining cash flows under the terms of the original debt instrument, the Company accounted for the amendment as a debt extinguishment. Accordingly, for the year ended December 31, 2015, the Company recorded a $78,155 loss on extinguishment of debt in the consolidated statement of operations.

For the year ended December 31, 2016 and 2015, the Company recognized amortization expense for the debt discounts on the convertible promissory notes of $1,529,219 and $2,220,115, respectively. Also, for the years ended December 31, 2016 and 2015, the Company recognized interest expense for the convertible promissory notes of approximately $500,000 and $429,561, respectively.

NOTE 10 - DERIVATIVE LIABILITIES

The Series 1 convertible promissory notes discussed in Note 10 have a variable conversion price, which results in a variable number of shares needed for settlement that gave rise to a derivative liability for the embedded conversion feature. Due to the variable conversion price in the Series 1 convertible notes, the warrants to purchase shares of common stock are also classified as a liability. The fair value of the conversion feature derivative liability is recorded and shown separately under noncurrent liabilities. Changes in the fair values of the derivative liabilities related to the embedded conversion feature and the warrants are recorded in the statement of operations under other income (expense).

During the year ended December 31, 2015, the Company converted all of the Series 1 convertible promissory notes issued in 2014 into common stock, which gave rise to fair value liabilities for the embedded conversion features. At conversion, the balance of the derivative liability of $791,409 was credited to additional paid in capital in the consolidated balance sheet.

Additionally, the Series 2 convertible promissory notes derivative liability balance of $119,348 was also credited to additional paid in capital. The Series 2 notes embedded conversion features were classified as a derivative liability solely due to “sequencing” such that, when the Series 1 notes were converted the Series 2 notes are no longer considered a derivative.

Additionally, the Series 3 and 4 convertible promissory notes discussed in Note 10 have a variable conversion price, which results in a variable number of shares needed for settlement that gave rise to a derivative liability for the embedded conversion feature. Both the variable conversion price in the Series 3 convertible notes as well as a “Half Ratchet” or “Down Round Protection” clause in the warrant agreements require classification of the warrants as a derivative liability. The fair value of the conversion feature derivative liability and the warrant liability are recorded and shown separately under current liabilities. Changes in the fair values of the derivative liabilities related to the embedded conversion feature and the warrants are recorded in the statement of operations under other income (expense). At conversion, the balance of the derivative liability of $673,050 was credited to additional paid in capital in the consolidated balance sheet.

The following table sets forth movement in the derivative liability from the initial measurement at issuance date through December 31, 2016:

Balance December 31, 2014	$	1,151,870
Initial measurement at issuance date of convertible promissory notes		1,335,797
Change in derivative liability, net		(1,875,508)
Balance December 31, 2015		612,159
Change in derivative liability, net		(134,345)
Balance December 31, 2016	$	477,814

NOTE 11 - VEHICLE LOAN

During the year ended December 31, 2014, the Company financed a vehicle. The original balance of the loan was $47,286. The balance of the loan as of December 31, 2015 was $34,115. In January 2016, the Company paid the balance of the loan in full.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company holds a lease agreement for its manufacturing and office space consisting of approximately 18,000 square feet. The lease term extends through April 1, 2017. The Company is in the process of negotiating a 90-day extension for our expired lease. We are in the process of evaluating our future office and warehouse needs, so we plan to continue with 90-day extensions under our expired lease agreement until we determine our office and warehouse requirements.

Rent expense for office space amounted to $237,552 and $237,617 for the years ended December 31, 2016 and 2015, respectively.

Employment agreements

The Company has employment agreements with Brandy Keen as its Vice President of Sales and Stephen Keen as its Director of Technology to pay each an annual base salary of $96,000. The Company agreed to employ Mr. and Ms. Keen for a period of three years beginning on July 25, 2014. Notwithstanding the 3-year term, each of the Keens' employment agreements are at-will and may be terminated at any time, with or without cause. The committed amount payable over the remaining term of the Keens' agreements totals $112,000.

Other Commitments

In the ordinary course of business, the Company may provide indemnifications of varying scope and terms to customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the Company's breach of such agreements, services to be provided by the Company, or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with its directors and certain of its officers and employees that will require the Company to, among other things, indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. The Company has also agreed to indemnify certain former officers, directors, and employees of acquired companies in connection with the acquisition of such companies. The Company maintains director and officer insurance, which may cover certain liabilities arising from its obligation to indemnify its directors and certain of its officers and employees, and former officers, directors, and employees of acquired companies, in certain circumstances.

It is not possible to determine the maximum potential amount of exposure under these indemnification agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. Such indemnification agreements may not be subject to maximum loss clauses.

Litigation

From time to time, the Company may become subject to legal proceedings, claims, and litigation arising in the ordinary course of business. In addition, the Company may receive letters alleging infringement of patent or other intellectual property rights. The Company is not currently a party to any material legal proceedings, nor is the Company aware of any pending or threatened litigation that would have a material adverse effect on the Company's business, operating results, cash flows, or financial condition should such litigation be resolved unfavorably.

NOTE 13 - PREFERRED AND COMMON STOCK

Preferred Stock

As of December 31, 2016 and 2015, there were 77,220,000 shares of Series A Preferred Stock issued and outstanding, respectively. The Series A Preferred Stock has no conversion rights, liquidation priorities, or other preferences; it only has voting rights equal to the common stock.

Common Stock

During the year ended December 31, 2016, the Company issued shares of its common stock as follows:

A total of 46,045 shares were issued to any employee for compensation

A total of 1,493,400 shares were issued for the exercise of stock options

A total of 33,365,609 shares were issued for the conversion the convertible promissory notes (See Note 9_ - Convertible Promissory notes).

During the year ended December 31, 2015, the Company issued shares of its common stock as follows:

A total of 1,000,000 shares were issued in connection with a consulting agreement. These shares, valued at $330,000, were authorized in 2014 and deemed issued as of December 31, 2014, however were not issued by the stock transfer agent until January 7, 2015. The consulting agreement called for the consultant to provide business advisory and related consulting services, including but not limited to: study and review of the business, operations, and financial performance and development initiatives, and formulating the optimal strategy to meet working capital needs.

A total of 4,556,250 shares were issued in connection with the issuance of convertible promissory notes. (See Note 9 – Convertible Promissory Notes.) $427,448 of the proceeds, which is net of transaction costs of $19,042, was allocated to common stock and additional paid in capital.

A total of 25,169,786 shares were issued as a result of conversions of Series 1 convertible promissory notes. (See Note – 9 Convertible Promissory Notes.) $1,668,267 of the proceeds was allocated to common stock and additional paid in capital.

A total of 21,408,023 shares were transferred to the Company. This transfer was not the result of any agreements between the Company and the individual. On August 11, 2015, the Company authorized cancellation of the shares.

A total of 539,028 shares were issued to employees as compensation.

A total of 866,571 shares were issued for nonemployee services provided to the Company.

A total of 2,625,000 shares were issued for the exercise of stock options. In December 2015, stock option holders gave the Company notice of their intent to exercise the options to purchase the Company's common shares. The issuance was accounted for as though completed in 2015, however the issuance of those shares was not actually completed until subsequent to December 31, 2015.

NOTE 14 - WARRANTS AND OPTIONS

Warrants for common stock

Warrant activity during the years ended December 31, 2016 and 2015 is as follows:

	Number of Warrants	Weighted-Average Exercise Price	Aggregate Intrinsic Value
Outstanding and exercisable December 31, 2014	1,625,000	$ 3.00	$ 515,125
Granted (with Series 2 convertible notes)	911,250	3.00	
Granted (with Series 3 convertible notes)	2,625,000	0.25	
Exercised	-	-	
Expired	-	-	
Outstanding and exercisable December 31, 2015	5,161,250	$ 0.70	$ 350,788
Exercised	-		
Expired	-		
Outstanding and exercisable December 31, 2016	5,161,250	$ 0.70	$ 1,032,250

As of December 31, 2016, there were outstanding warrants to purchase an aggregate of 5,161,250 shares of common stock. The warrants expire between October 2018 and September 2020. Those issued in connection with the Series 2 convertible promissory notes expire within four years from the date of issue. Those issued in connection with the Series 3 convertible promissory notes expire five years from the issuance date.

Stock Option Plan

At the closing of the merger with Safari Resource Group, Safari had stock options that had previously been granted to its founders totaling 10,000 shares, and were fully vested. At the date of grant, Safari had no operations and nominal assets. As a result, the options were deemed to have no value and no charge was made to the income statement. The options were converted at the same rate as the common shares resulting in 10,296,000 options, with an exercise price of $0.00024. In the years ended 2016 and 2015, stock option holders exercised 1,493,400 and 2,625,000 stock options respectively. No new options were granted during the year ended December 31, 2016 or the year ended December 31, 2015.

The following table summarizes our stock option activity:

	Number of Options	Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2014	10,296,000	$ -
Options granted	-	0.00024
Options exercised	(2,625,000)	-
Options forfeited	-	-
Outstanding as of December 31, 2015	7,671,000	$ 0.00024
Options granted	-	-
Options exercised	(1,493,400)	0.00024
Options forfeited	-	-
Outstanding as of December 31, 2016	6,177,600	$ 0.00024

The Company's stock option activity and related information for 2016 and 2015 is summarized as follows:

	Year Ended December 31, 2016				Year Ended December 31, 2015			
	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding, beginning of year	7,671,000,	$ 0.00024	1.2	$ 536,970	10,296,000	$ 0.00024	2.2	$ 3,263,832
Options granted	-	-	-	-	-	-	-	-
Options exercised	(1,493,400)	0.00024	-	119,966	(2,625,000)	0.00024	-	183,750
Options canceled	-	-	-	-	-	-	-	-
Options outstanding, end of year	6,177,600	$ 0.00024	.2	$ 1,155,211	7,671,000	$ 0.00024	1.2	$ 536,970
Vested and exercisable and expected to vest, end of year	6,177,600	$ 0.00024	.2	$ 1,155,211	7,671,000	$ 0.00024	1.2	$ 536,970

(1) The stock options outstanding were issued under the 2014 Stock Ownership Plan of Safari. Upon the acquisition of Safari on March 26, 2014, the existing stock options in Safari were converted into stock options in Surna. All options were fully vested at the date of the acquisition. Accordingly, there was no unrecognized compensation. The options expire in March 2017.

Stock options outstanding and exercisable as of December 31, 2016 are as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Number Exercisable	Weighted Average Weighted Exercise Price
$ 0.00024	6,177,600	$ 0.00024	.2	6,177,600	$ 0.00024

NOTE 15 - INCOME TAXES

In 2016 and 2015, we recorded net tax provisions of nil.

The components of the provision for income taxes, net for the fiscal years ended December 31, 2016 and 2015 are:

	2016	2015
Current taxes:		
U.S. Federal	$ -	$ -
U.S. State	-	-
International	-	-
Current taxes	-	-
Deferred taxes:		
U.S. Federal	-	-
U.S. State	-	-
International	-	-
Deferred taxes	-	-
Provision for income taxes, net	$ -	$ -

Differences between income taxes computed at the federal statutory rate and the provision recorded for income taxes are comprised of the follow items:

	2016	2015
Income taxes computed at the federal statutory rate	$ (1,021,000)	$ (1,801,000)
Effect of:		
State taxes, net of federal benefits	(92,000)	(162,000)
Loss of net operating losses from discontinued operations		-
Loss of net operating losses due to 382 limitations		596,000
Nondeductible expenses	717,000	501,000
Other, net	122,000	114,000
Change in valuation allowance	274,000	752,000
Total	$ -	$ -

As of December 31, 2016, the Company has approximately $ in net operating losses carried forward for federal and state income tax purposes, which will expire, if not utilized, in 2035.

As a result of the Safari acquisition (see Note 1), there was a change of control (greater than 50% ownership change) and a change in lines of business, thus utilization of prior year net operations losses will be limited.

Deferred income tax assets as of December 31, 2016 and 2015 are as follows:

	2016	2015
Deferred tax assets:		
Net operating losses	$ 3,762,000	$ 2,155,000
Consultant Expenses	-	7,000
Other items	19,000	12,000
Total deferred tax assets	3,781,000	2,052,000
Deferred tax liabilities		
Federal utilization of state benefits	(154,000)	(82,000)
Fixed asset basis difference	(14,000)	(41,000)
Consulting expense	(25,000)	
Total deferred tax liabilities	(193,000)	(115,000)
Net deferred tax assets before valuation allowance	3,588,000	
Less valuation allowance	(3,588,000)	(2,052,000)
Net Deferred tax assets	$ -	$ -

We are under examination, or may be subject to examination, by the Internal Revenue Service ("IRS") for the calendar year 2009 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating losses with respect to years under examination as well as subsequent periods. We have filed our past years' federal corporate income tax returns from 2009 through 2015and may be subject to penalties, as described below, for non-compliance; however, we believe that we had no taxable income in US or in any foreign jurisdiction. We are in process of completing our US federal tax return for 2016 and state tax returns for years 2009 through 2016.

The Company also has net operating loss carryforwards of approximately $9,737,098 included in the deferred tax asset table above for 2016 and 2015, respectively, However, due to limitations of carryover attributes , it is unlikely the company will benefit from these NOL's and thus Management has determined a 100% valuation reserved is required. .

For U.S. purposes, the Company has not completed its evaluation of NOL utilization limitations under Internal Revenue Code, as amended (the "Code") Section 382, change of ownership rules. If the Company has had a change in ownership, the NOL's would be limited as to the amount that could be utilized each year, based on the Code.

The Company has been penalized by the Internal Revenue Service for failure to file its Foreign Form 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations for the years 2009 through 2014 on a timely basis . The Penalties are approximate $120,000. The Company has requested the penalties be abated to the Internal Revenue Service and believes the Penalties will be abated for reasonable cause, but no assurance can be relied upon until the Internal Revenue Service acts upon the request.

NOTE 16 - SUBSEQUENT EVENTS

In accordance with ASC 855, "Subsequent Events", the Company has evaluated all subsequent events through March 31, 2017, the date the financial statements were available to be issued. The following events occurred after December 31, 2016

As described in Note 9 – Convertible Promissory Notes, the Company entered negotiations to extinguish its Convertible Promissory notes. Subsequent to December 31, 2016, the Company extinguished $761,440 and $161,031 of convertible promissory notes, net and convertible accrued interest, respectively. The promissory notes and interest were extinguished by the issuance of approximately 3,416,612 shares of the Company' common stock and cash payments of approximately $314,000.

In January, 2017, the Company received a payment to settle a note receivable plus accrued interest totaling $100,000 which was included in our Notes Receivable balance as of December 31, 2016.

March 2017, the Company entered into a Securities Purchase Agreement (the "Agreement") with certain accredited investors (the "Investors"). The Company issued an aggregate of 16,781,250 investment units (the "Units"), for aggregate gross proceeds of $2,685,000. Each Unit consists of one share of the Company's common stock and one warrant for the purchase of one share of Common Stock.

In March 2017, the Company issued a two promissory note, with identical terms, in the amount of $268,750, or $537,200 in total, with an interest rate of 6% per annum. The promissory note and all accrued interest are due and payable on November 9, 2017.

In March 2017, the Company's CEO completed certain milestones as to restricting the Company's convertible promissory notes and raised approximately $2,700,000 through a private placement of the Company's common stock. Upon completion of these milestones certain shareholders, of the Company, transferred 3,088,800 options to purchase the Company's common stock, at $0.00024 per share, to the Company's CEO as a bonus. In the first quarter of 2017, the Company will record as compensation expense, the fair value of these options as of the date of transfer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

SURNA INC.
(the "Registrant")

Dated: March 31, 2017

By: */s/ Trent Doucet*
Trent Doucet
Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Dated: March 31, 2017

By: */s/ Brandy Keen*
Brandy Keen, Secretary and Director

Dated: March 31, 2017

By: */s/ Trent Doucet*
Trent Doucet, Chief Executive Officer, President, Director (Principal Executive Officer)

Dated: March 31, 2017

By: */s/ Stephen Keen*
Stephen Keen, Director

Dated: March 31, 2017

By: */s/ Dean S Skupen*
Dean S Skupen
Principal Financial and Accounting Officer

Dated: March 31, 2017

By: */s/ Morgan Paxhia*
Morgan Paxhia
Director

Dated: March __, 2017

By:
Timothy Keating
Director

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Membership Interest Purchase Agreement (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2014).
2.2	Agreement and Plan of Merger (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 12, 2014).
2.3	Modification and Amendment to the Membership Interest Purchase Agreement among Brandy Keen and Stephen Keen and Surna Inc. dated as of July 25, 2014 (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 29, 2014).
3.1(a)	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 as filed with the Securities and Exchange Commission on January 28, 2010).
3.1(b)	Amended Articles of Incorporation (incorporated herein by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 16, 2011).
3.1(c)	Certificate of Designations of Preferences, Rights, and Limitations of Preferred Stock (incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 12, 2014).
3.2*	Bylaws of Surna Inc., as amended.
4.1	Form of Convertible Promissory Note (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on October 21, 2014).
4.2	Specimen Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 as filed with the Securities and Exchange Commission on January 28, 2010).
4.3	Exclusive License Agreement (incorporated herein by reference to Exhibit 2.2 to the Company's Report on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2014).
4.4	Separation Agreement among the Company, Surna Media Inc., Lead Focus Limited and certain creditors of Surna Media Inc. dated as of June 30, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 7, 2014).
4.5	Membership Interest Transfer and Assignment Agreement (incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on May 12, 2014).
4.6	Modification and Amendment to the Membership Interest Purchase Agreement effective as of July 1, 2014 (incorporated herein by reference to Exhibit 2.1(a) to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 30, 2014.
10.1+	Executive Employment Agreement between Surna Inc. and Brandy Keen effective as of July 25, 2014 (incorporated herein by reference to Exhibit 2.1(a) to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 30, 2014).
10.2+	Executive Employment Agreement between Surna Inc. and Stephen Keen effective as of July 25, 2014 (incorporated herein by reference to Exhibit 2.1(a) to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on July 30, 2014).
10.3+	Executive Employment Agreement between Surna Inc. and David W. Traylor effective as of December 8, 2014 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014).
10.4+	Executive Employment Agreement between Surna Inc. and Bryon Jorgenson effective as of January 5, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 8, 2015).
10.5+	Executive Officer Confidentiality, Non-Competition, and Non-Solicitation Agreement between Surna Inc. and Bryon Jorgenson effective as of January 5, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 8, 2015).

10.6	Membership Interest Purchase Agreement between Surna Inc., Jim Willett, Forbeez Capital, LLC, and Agrisoft Development Group, LLC dated as of January 7, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 9, 2015).
10.7	Agreement for Professional Services (estimate 1368) between Surna Inc. and CWNevada, LLC, dated as of January 12, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2015).
10.8	Agreement for Professional Services (estimate 1369) between Surna Inc. and CWNevada, LLC, dated as of January 12, 2015 (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2015).
10.9	Addendum to the Membership Interest Purchase Agreement between Surna Inc., Jim Willett, Forbeez Capital, LLC, and Agrisoft Development Group, LLC dated as of February 23, 2015 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on February 27, 2015).
10.10	Memorandum of Understanding dated June 11, 2015 by and between Surna Inc., and Kind Agrisoft, LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 25, 2015).
10.11	Security Agreement dated June 23, 2015 by and between Surna Inc., and Kind Agrisoft, LLC (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on June 25, 2015).
10.12	Letter regarding Settlement and Satisfaction of Debts to Tom Bollich (incorporated herein by reference to Exhibit 1.01 to the Company's Current Report on Form 8-K as filed with the Securities and Exchange Commission on August 12, 2015).
10.13	Promissory Note Amendment effective April 15, 2016 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on April 20, 2016).
10.14	Consulting Agreement effective August 12, 2016 (incorporated by reference to Exhibit 10.2 attached to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016, as filed with the SEC on August 15, 2016).
10.15*	Form of Note Conversion and Warrant Amendment Agreement
10.16*	Purchase Agreement between Surna Inc. and Sante Veritas Therapeutics Inc., dated February 21, 2017.
10.17*	Form of Securities Purchase Agreement
10.18*	Board of Directors Agreement between Surna Inc. and Timothy J. Keating, dated March 7, 2017.
21.1*	Subsidiaries
31.1*****	Certification of Principal Executive Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*****	Certification of Principal Financial and Accounting Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer and Principal Financial and Accounting Officer, pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase

\+ Indicates a management contract or compensatory plan.
* Filed herewith.
** Furnished herewith.

NOTE CONVERSION AND WARRANT AMENDMENT AGREEMENT

This Note Conversion Agreement (this "***Agreement***") is entered into at the date of the signature of the last party (the "**Effective Date**"), by and among Surna Inc., a Nevada corporation (the "***Company***"), and the party listed on the signature page attached hereto (the "***Note Holder***" or "***Holder***").

Recitals

WHEREAS, the Company and the Note Holder entered into a certain Securities Purchase Agreement dated _____ as may be amended from time to time (the "***SPA***"), pursuant to which the Company sold and the Note Holder purchased units (the "***Units***") each full Unit consisted of 250,000 shares of the Company's common stock, par value $0.00001 per share (the "***Common Stock***"), a 10% convertible promissory note (each a "***Note***") and a warrant to purchase shares of Common Stock (each a "***Warrant***");

WHEREAS, the Note Holder purchased a portion or more Units pursuant to the SPA;

WHEREAS, the Note Holder desires to convert and cancel all indebtedness of the Company under the Notes held by the Note Holder, including any accrued and unpaid interest or penalties under the Notes, as set forth on Schedule A attached hereto, and the Company desires to issue to the Note Holder in exchange for the cancellation of all indebtedness of the Company to such Note Holder, including any accrued and unpaid interest or penalties under the Notes, and for no additional consideration, the number of shares of Common Stock described in Section 2(a) (collectively, the "***Note Conversion Shares***"); and

WHEREAS, in connection with the cancellation of the Notes and issuance of the Note Conversion Shares, the Company and the Note Holder desire to amend the Warrants to reduce the mandatory call price and the exercise price per share.

NOW, THEREFORE, in consideration of the rights and benefits that they will each receive in connection with this Agreement, the parties, intending to be legally bound, agree as follows:

1. Defined Terms. Terms capitalized herein and not otherwise defined herein shall have the meanings ascribed to such terms in the SPA.

2. Cancellation of Notes; Issuance of Note Conversion Shares.

a) Note Conversion[1]. Subject to the terms and conditions of this Agreement, on the Effective Date, the Company shall issue to the Note Holder, in exchange for the cancellation of all indebtedness of the Company to the Note Holder, including any accrued and unpaid interest or penalties under the Notes held by the Note Holder and for no additional consideration, such number of Note Conversion Shares equal to the amount determined by dividing (A) the outstanding balance under the Notes plus the accrued and unpaid interest as of the Effective Date by (B) _____% of the VWAP of the Common Stock for the_____ Trading Days immediately preceding the Effective Date (the "***Note Conversion***"). From and after the Note Conversion, the Notes converted shall solely represent the right to receive the Note Conversion Shares hereunder, no amounts shall remain outstanding under such Notes and such Notes shall be cancelled and otherwise be of no further force or effect. For purposes hereof, "VWAP" shall mean, for any Trading Day, the volume-weighted average price, calculated by dividing the aggregate value of Common Stock traded on the Trading Market during regular hours (price per share multiplied by number of shares traded) by the total volume (number of shares) of Common Stock traded on the Trading Market (or such other national securities exchange or automated quotation system on which the Common Stock is listed) for such Trading Day, or if such volume-weighted average price is unavailable, the market value of one share of Common Stock on such Trading Day as determined by the Board of Directors in a commercially reasonable manner, using a volume-weighted average price method.

1 Some Noteholders received a cash payment as part of their settlement.

b) Delivery of Notes. The Note Holder shall deliver its physical Notes (or if such Notes are lost, mutilated or destroyed or the Note Holder is not able to easily obtain the Note, a lost note affidavit and indemnity agreement in substantially the form attached hereto as Exhibit B (each, an "***Affidavit***")) to the Company for cancellation.

c) Rule 144 Opinion. The Note Holder requests that the Company obtain an opinion under Rule 144 of the Securities Act on behalf of the Note Holder. If the attorney undertaking the Rule 144 Opinion requires representations or other documentation from the Note Holder the Note Holder will provide such representations or other documentation within five (5) Business Day of the request. The Note Holder acknowledges that further documentation may be required to be provided by the Note Holder. Within five (5) Business Day after receipt of all of the duly executed documentation under this Agreement the Company shall provide the share issuer with the Opinion Letter for the removal of the restricted legend on the Note Conversion Shares.

d) Delivery of Shares. Within five (5) Business Days from the receipt of all duly executed documentation and receipt of the physical Notes (or Affidavit, as applicable), and Shareholder Representation letters, whichever is the later, from the Note Holder, the Company shall deliver the applicable Note Conversion Shares to the Note Holder in accordance with Section 2(a).

3. Warrant Amendment. Subject to the terms and conditions of this Agreement, on the Effective Date, the following amendments will be automatically made to each Warrant held by the Note Holder:

a) Section 2(b) of each Warrant held by the Note Holder shall be automatically amended to provide that the mandatory call price per share shall be reduced from $3.60 to $_____.

b) Section 2(c) of each Warrant held by the Note Holder shall be automatically amended to provide that the exercise price per share shall be reduced from $3.00 to $_____.

No other terms of the Warrants are being amended, and the Warrants shall remain otherwise in full force and effect.

Initial Note Holder _____ Initial Surna _____

4. Representations and Warranties of the Company. The Company hereby represents and warrants to the Note Holder as of the date hereof as follows:

a) Organization and Standing. The Company is a corporation duly organized, validly existing under, and by virtue of, the laws of the State of Nevada, and is in good standing under such laws.

b) Corporate Power. The Company has all requisite legal and corporate power and authority to execute and deliver this Agreement, to sell and issue the Note Conversion Shares hereunder, and to carry out and perform its obligations under the terms of this Agreement and the transactions contemplated hereby.

c) Authorization. All corporate action on the part of the Company, its officers, directors and shareholders necessary for the authorization, execution, delivery and performance of this Agreement, the authorization, sale, issuance and delivery of the Note Conversion Shares and the performance of all of the Company's obligations hereunder have been taken or will be taken prior to or on the date hereof. This Agreement has been duly executed by the Company and constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

d) Valid Issuance of Stock. The Note Conversion Shares, when issued, sold and delivered in compliance with the provisions of this Agreement, will be duly and validly issued, fully paid and non-assessable and issued in compliance with applicable federal and state securities laws. Such Note Conversion Shares will also be free and clear of any liens or encumbrances; provided, however, that the Note Conversion Shares shall be subject to the provisions of this Agreement and restrictions on transfer under state and/or federal securities laws. The Note Conversion Shares are not subject to any preemptive rights, rights of first refusal or restrictions on transfer.

e) Offering. Subject in part to the accuracy of the Note Holder's representations in Section 5 (if applicable) hereof, the offer, sale and issuance of the Note Conversion Shares in conformity with the terms of this Agreement and the Warrant Amendment constitute transactions exempt from registration under the Securities Act of 1933, as amended (the "***Securities Act***"), and from all applicable state securities laws.

f) Governmental Consents. No consent, approval, qualification or authority of, or registration or filing with, any local, state or federal governmental authority on the part of the Company is required in connection with the valid execution, delivery or performance of this Agreement, or the offer, sale or issuance of the Note Conversion Shares, or the consummation of any transaction contemplated hereby, except (i) such filings as have been made prior to the date hereof and (ii) such additional post-closing filings as may be required to comply with applicable federal and state securities laws (including but not limited to any Form D or Form 8-K filings), and with applicable general corporation laws of the various states, each of which will be filed with the proper authority by the Company in a timely manner.

5. Representations and Warranties of the Note Holder. The Note Holder hereby represents and warrants as of the date hereof to the Company as follows:

g) Organization and Standing. The Note Holder is either an individual or an entity duly organized, validly existing under, and by virtue of, the laws of the jurisdiction of its incorporation or formation, and is in good standing under such laws.

h) Corporate Power. The Note Holder has all right, corporate, partnership, limited liability company or similar power and authority to execute and deliver this Agreement, to effect the Note Conversion hereunder, and to carry out and perform its obligations under the terms of this Agreement and the transactions contemplated hereby.

i) Authorization. All corporate, partnership, limited liability company or similar action, as applicable on the part of the Note Holder, necessary for the authorization, execution, delivery and performance of this Agreement, the Note Conversion, the Warrant Amendment and the performance of all of the Note Holder's obligations hereunder have been taken or will be taken prior to the Effective Date. This Agreement has been duly executed by the Note Holder and constitutes a valid and legally binding obligation of the Note Holder, enforceable against the Note Holder in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules of law governing specific performance, injunctive relief or other equitable remedies.

j) Governmental Consents. No consent, approval, qualification or authority of, or registration or filing with, any local, state or federal governmental authority on the part of the Company is required in connection with the valid execution, delivery or performance of this Agreement, or the offer, sale or issuance of the Note Conversion Shares, or the Warrant Amendment or the consummation of any transaction contemplated hereby, except such filings as have been made prior to the date hereof.

k) Own Account. The Note Holder understands that the Note Conversion Shares are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law in reliance upon exemptions from regulation for non-public offerings and is acquiring the Note Conversion Shares as principal for its own account and not with a view to or for distributing or reselling such Note Conversion Shares or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any such Note Conversion Shares in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Note Conversion Shares in violation of the Securities Act or any applicable state securities law. The Note Holder agrees that the Note Conversion Shares or any interest therein will not be sold or otherwise disposed of by the Note Holder unless the shares are subsequently registered under the Securities Act and under appropriate state securities laws or unless the Company receives an opinion of counsel satisfactory to it that an exception from registration is available.

Initial Note Holder _____ Initial Surna _____

l) Note Holder Status. The Note Holder is an "accredited investor" as defined in Rule 501(a)(1), (a)(2), (a)(3), (a)(7) or (a)(8) under the Securities Act and the Note Holder has accurately completed the Investor Questionnaire attached hereto as Exhibit A. The Note Holder agrees to provide any additional documents and information that the Company shall reasonably request for purposes of determining whether the Note Holder is an accredited investor. The Note Holder is not required to be, and certifies that it is not, registered as a broker-dealer or registered representative under Section 15 of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***").

m) Experience of Note Holder. The Note Holder, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Note Conversion Shares, and has so evaluated the merits and risks of such investment.

n) Ability to Bear Risk. The Note Holder understands and acknowledges that investment in the Company is highly speculative and involves substantial risks. The Note Holder is able to bear the economic risk of an investment in the Note Conversion Shares and is able to afford a complete loss of such investment.

o) General Solicitation. The Note Holder is not accepting the Note Conversion Shares or the Warrant Amendment as a result of any advertisement, article, notice or other communication regarding the Note Conversion Shares or the Warrant Amendment published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

p) Disclosure of Information. The Note Holder has had the opportunity to receive all additional information related the Company requested by it and to ask questions of, and receive answers from, the Company regarding the Company, including the Company's business management and financial affairs, and the terms and conditions of this offering of the Note Conversion Shares and Warrant Amendment. Such questions were answered to the Note Holder's satisfaction. The Note Holder has also had access to copies of the Company's filings with the U.S. Securities and Exchange Commission under the Securities Act and Exchange Act. The Note Holder believes that it has received all the information the Note Holder considers necessary or appropriate for deciding whether to consummate the Note Conversion and Warrant Amendment. The Note Holder understands that such discussions, as well as any information issued by the Company, were intended to describe certain aspects of the Company's business and prospects, but were not necessarily a thorough or exhaustive description.

q) Residency. The residency of the Note Holder (or in the case of a partnership or corporation, such entity's principal place of business) is correctly set forth on the signature page attached hereto.

r) Tax Matters. The Note Holder has reviewed with its own tax advisors the U.S. federal, state, local and foreign tax consequences of this investment and the transaction contemplated by this Agreement. The Note Holder understands that it (and not the Company) shall be responsible for its own tax liability that may arise as a result of this investment and the transactions contemplated by this Agreement.

Initial Note Holder _____ Initial Surna _____

s) Restrictions on Transferability; No Endorsement. The Note Holder has been informed of and understand the following:

i. There are substantial restrictions on the transferability of the Note Conversion Shares; or

ii. No federal or state agency has made any finding or determination as to the fairness for public investment, nor any recommendation nor endorsement of the Note Conversion Shares.

t) No Other Representation by the Company. None of the following information has ever been represented, guaranteed or warranted to the Note Holder, expressly or by implication by any broker, the Company, or agent or employee of the foregoing, or by any other Person:

i. The approximate or exact length of time that the Note Holder will be required to remain a holder of the Note Conversion Shares;

ii. The amount of consideration, profit or loss to be realized, if any, as a result of an investment in the Company; or

iii. that the past performance or experience of the Company, its officers, directors, associates, agents, affiliates or employees or any other person will in any way indicate or predict economic results in connection with the plan of operations of the Company or the return on investment.

6. Waiver. Effective immediately upon the Note Conversion with respect to the Notes and Warrants held by the Note Holder, the Note Holder expressly forfeits and waives any and all rights that are inconsistent with the terms of this Agreement either under the SPA, the Warrants, the Notes or otherwise applicable to the Notes, including, but not limited to, any anti-dilution rights the Note Holder may have with respect to the issuances of any capital stock or other securities of the Company pursuant to previous transactions and pursuant to this Agreement.

7. Trading Restrictions. At all times during the ninety (90) day period immediately following the Effective Date (the "***Leak-Out Period***"), beginning on the Effective Date, the Note Holder hereby agrees with the Company that the Note Holder shall not sell, transfer or dispose of more than one-third of the total amount of Note Conversion Shares beneficially owned by the Note Holder during any thirty (30) day period in such Leak-Out Period. The Note Holder agrees that if they violate this section that this will be a Material Breach of this Agreement.

8. **Miscellaneous**.

a. Legends.

i. The Note Holder hereby acknowledges that a legend may be placed on any certificates representing any of the Note Conversion Shares to the effect that the Note Conversion Shares represented by such certificates are subject to restrictions on transfer during the Leak-Out Period and may not be traded except in accordance with the restrictions set forth herein.

ii. The Note Holder hereby acknowledges and agrees to the Company making a notation on its records or giving instructions to the registrar and transfer agent of the Company (along with any successor transfer agent of the Company) in order to implement the restrictions on transfer set forth and described in this Agreement.

b. Reliance on Representations and Warranties by the Company. The Note Holder acknowledges that the representations and warranties contained herein are made by it with the intention that such representations and warranties may be relied upon by the Company and its legal counsel in determining the Note Holder's eligibility to purchase the Note Conversion Shares under applicable securities legislation, or (if applicable) the eligibility of others on whose behalf it is contracting hereunder to purchase the Note Conversion Shares under applicable securities legislation. The Note Holder further agrees that the representations and warranties made by the Note Holder will survive the Note Conversion and Warrant Amendment and will continue in full force and effect notwithstanding any subsequent disposition of the Note Holder of such Note Conversion Shares.

c. Fees and Expenses. Each party shall pay the fees and expenses of its advisors, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the preparation, execution, delivery and performance of this Agreement.

d. Entire Agreement. This Agreement, together with the schedules and exhibits attached hereto, contain the entire agreement of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written with respect to such matters. To the extent that any provision of the SPA, the Notes, or the Warrants are inconsistent with the provisions of this Agreement, the provisions of this Agreement shall control.

e. Notices. All notices, demands requests, consents, approvals, and other communications required or permitted hereunder shall be in writing and, unless otherwise specified herein, shall be (i) personally served, (ii) deposited in the mail, registered or certified, return receipt requested, postage prepaid, (iii) delivered by reputable air courier service with charges prepaid, or (iv) transmitted by hand delivery, telegram, facsimile or electronic mail, addressed as set forth below or to such other address as such party shall have specified most recently by written notice. Any notice or other communication required or permitted to be given hereunder shall be deemed effective (a) upon hand delivery or delivery by facsimile or electronic mail, with delivery receipt or the affidavit of messenger, at the address, number or electronic mail address designated below (if delivered on a Business Day during normal business hours where such notice is to be received), or the first Business Day following such delivery (if delivered other than on a Business Day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall occur first. The addresses for such communications shall be: (i) if to the Company, to: Surna Inc., Attn: Chief Executive Officer - Amendment, Surna 1780 55th Street, Suite C, Boulder, Colorado 80301, facsimile: +1 (303) 955-2544, e-mail: amendment@surna.com, with a copy (which shall not constitute notice) to Duane Morris LLP, Attn: David N. Feldman, 1540 Broadway, New York, New York 10024, facsimile: +1 (212) 202 6094, e-mail: dnfeldman@duanemorris.com, and (iii) if to the Note Holder, to the address, fax number and e-mail as indicated on the signature page attached hereto.

Initial Note Holder _____ Initial Surna _____

f. Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Note Holder. No waiver with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

g. Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

h. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns.

i. No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and assigns, and is not for the benefit of, nor may any provision hereof be enforced by, any other Person.

j. Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement and the transactions contemplated hereby shall be governed by and construed and enforced in accordance with the internal laws of the State of Colorado, without regard to the principals of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts of Colorado. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts of Colorado for the adjudication of any dispute hereunder or in connection herewith or the transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not an appropriate venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof.

k. Survival. The representations and warranties contained herein shall survive the Effective Date for the applicable statute of limitations.

l. Execution. This Agreement may be executed in one or more counterparts, all of which when taken together shall be considered one and the same agreement, it being understood that the parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission or by email delivery of a ".pdf" format data file, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or ".pdf" signature was an original thereof.

Initial Note Holder _____ Initial Surna _____

m. Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ, an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

n. Construction. The parties hereto agree that each of them and/or their respective counsel have reviewed and have had an opportunity to revise this Agreement and the schedules and exhibits attached hereto. This Agreement shall be construed according to its fair meaning and not strictly for or against any party. The word "including" shall be construed to include the words "without limitation." In this Agreement, unless the context otherwise requires, references to the singular shall include the plural and vice versa.

o. Confidentiality. The Note Holder agrees to maintain the confidentiality of all of the terms and conditions of this Agreement (the "***Information***"), except that Information may be disclosed (a) to its and its affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) with the consent of the Company or (e) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section 8(o) or (ii) becomes available to the Note Holder on a non-confidential basis from a source other than the Company.

p. Material Breach of Agreement by Note Holder. Without limiting the damages payable to or the rights provided to the Company under this Agreement. The Note Holder agrees that in the event that the Note Holder materially breaches this Agreement that in addition to any damages and legal expense actually incurred by the Company and any other amounts owed to the Company in accordance with this agreement that the Note Holder will pay the Company, the actual legal expenses of the Company in enforcing this agreement and the sum equal to 25% of the VWAP of the Common Stock as calculated in accordance with section 2(a). The Note Holder further acknowledges that in the event that they materially breach this Agreement that the Warrants issued to the Note Holder as amended under this Agreement will be null and void and the Note Holder shall be required to immediately return the Warrant to the Company.

q. Acknowledgment of Concurrent Negotiations. The Note Holder acknowledges that they have been informed that the Company is currently negotiating with other holders of the Notes and Warrants and that the terms being offered to those holders may be more favorable than the terms set forth in this Agreement.

r. Offer to Close. This Offer shall remain open until _____.

s. **WAIVER OF JURY TRIAL. IN ANY ACTION, SUIT OR PROCEEDING IN ANY JURISDICTION BROUGHT BY ANY PARTY AGAINST ANY OTHER PARTY, THE PARTIES EACH KNOWINGLY AND INTENTIONALLY, TO THE GREATEST EXTENT PERMITTED BY APPLICABLE LAW, HEREBY ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY AND EXPRESSLY WAIVES FOREVER TRAIL BY JURY.**

[*Signature Page Follows*]

Initial Note Holder _____ Initial Surna _____

IN WITNESS WHEREOF, the parties have caused this Note Conversion and Warrant Amendment Agreement to be duly executed and delivered as of the date and year first written above.

"**Company**"
SURNA INC.

By: _____
Name: Trent Doucet
Title: CEO
Date: _____

Initial Note Holder _____ Initial Surna _____

IN WITNESS WHEREOF, the parties have caused this Note Conversion and Warrant Amendment Agreement to be duly executed and delivered as of the date and year first written above.

"**Note Holder**"

Address for Notice: _____
_____
_____
Facsimile: _____
E-mail address: _____
Dated: _____

By an individual:

By: _____
Printed Name: _____
State Residency: _____

If by an entity:

By: _____
Name of Entity: _____
Printed Name: _____
Title: _____
Principal Place of Business: _____

Initial Note Holder _____ Initial Surna _____

SCHEDULE A

Note Holder Name	Principal of Note	Interest	Total Outstanding

Initial Note Holder _____ Initial Surna _____

EXHIBIT A

ACCREDITED INVESTOR QUESTIONNAIRE

EXHIBIT B

LOST NOTE AFFIDAVIT AND INDEMNITY AGREEMENT

PURCHASE AGREEMENT

Surna, Inc. | 1780 55th St. Boulder, CO 80301 | Phone: (303) 993-5271 |sales@surna.com

For Surna Estimate Number: 081716C-1B

Purchaser Info:
Full Legal Name (Company or Individual) | Phone: | Fax:
Sante Veritas Therapeutics, Inc
Doing Business as: | Email Address:

Address I City I State I Zip: | Country:
507-595 Howe St Vancouver, BC V6C-2T5 | CANADA
Company Type: | State / Providence Licensed in:
[X] CORPORATION [ ] PROPRIETORSHIP [ ] PARTNERSHIP [ ] FRANCHISE [ ] OTHER | BC
Federal Tax ID# NA | Year Established: | At Present Location Since:

Ship to:
Business Name: Same as Purchaser Info | Contact Name:
Phone: | Email: | Address Same as Above: [ ] Yes (Don't fill out address below.)
Address I City I State I Zip: | Country:

Owner's Information:
Owner's First Name: | LastName: | Phone #
Home Address (Address / City / State / Zip / Country): | Email Address:
Owner's First Name: | Last Name: | Phone #
Home Address (Address / City / State / Zip / Country) | Email Address:

Purchase Price: $834,270.00 | Estimated Shipping Costs: Included

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Purchase Agreement Date: 2/21/17

Subject to the provisions of this Purchase Agreement (“Agreement”), Surna, Inc. (“Seller”) agrees to sell to the entity or entities identified herein (collectively, the “Buyer”) and Buyer agrees to purchase and accept from Seller the equipment (“Equipment”), together with any services (“Services”) as described in the proposal (“Proposal”).

1. ACCEPTANCE

The Agreement is subject to acceptance in writing by the party to whom this offer is made or an authorized agent delivered to Seller within 30 days from the date of the Agreement. If the Buyer does not accept the Agreement but places an order, without the addition of any other terms and conditions of sale or any other modification, Buyer’s order shall be deemed acceptance of the Agreement subject to Seller’s terms and conditions. Buyer’s acceptance of the Equipment will in any event constitute an acceptance by Buyer of Seller’s terms and conditions. This Agreement may be subject to credit approval by Seller. Upon disapproval of credit, Seller may delay or suspend performance or, at its option, renegotiate prices and/or terms and conditions with Buyer. If Seller and Buyer are unable to agree on such revisions, this Agreement shall be cancelled, prior to execution of agreement, without any liability.

2. EQUIPMENT AND OR SERVICE

The Equipment and or service shall conform in all respects to the specifications set forth in the Proposal referenced above in the Purchase and Services Agreement Section.

3. AGREEMENT PRICE

The total Agreement Price for the Equipment, and Services, if applicable, to be provided by Seller as described on the Purchase and Services Agreement (Agreement Price). Following acceptance without addition of any other terms and condition of sale or any other modification by Buyer, the prices stated are firm provided that notification of release for immediate production and shipment is received at Seller’s factory not later than 4 months from order acceptance. If such release is received later than 4 months from order acceptance date, prices will be increased a straight 1% (not compounded) for each 1-month period (or part thereof) beyond the 3-month firm price period up to the date of receipt of such release. If such release is not received within 6 months after the date of order acceptance, the prices are subject to renegotiation or at Seller’s option, the order will be cancelled. Any delay in shipment caused by Buyer’s actions will subject prices to increase equal to the percentage increase in list prices during that period of delay and Seller may charge Buyer with incurred storage fees. In no event will prices be decreased. All prices include packaging in accordance with Seller’s standard procedures. Charges for special packaging, crating, or packing are the responsibility of Buyer.

4. TERMS OF PAYMENT AND CANCELLATION POLICY

Unless otherwise stated herein, payment schedule will be as follows:

Five percent (5%) deposit payment, totaling $41,713.50, will be invoiced and is due upon acceptance of Agreement. Upon receipt of deposit payment, engineering drawings will be initiated and completed through Phase 2 of the accompanying Engineering Scope of Work.

Fifty percent (50%) of remaining agreement price, totaling $396,278.25 is due prior to commencement of manufacturing. This payment will be invoiced upon request and will be due no later than June 15, 2017.

Twenty-five percent (25%) of remaining agreement price, totaling $198,139.13 will be invoiced and is due six weeks (6 weeks) prior to shipment of chillers. This deposit payment will release air handlers, dehumidifiers, and all other components except chillers for shipment.

Final payment of twenty-five percent (25%) of agreement price, totaling $198,139.12, will be invoiced and is due immediately prior to chiller shipment.

In the event that Buyer fails to receive building permit, Buyer may cancel this contract at any time after execution of contract and prior to manufacturing deposit payment. In the event that cancellation is initiated under these terms, Buyer agrees that engineering work has been completed and therefore engineering deposit shall be forfeited.

Should building permits be delayed past 5/31/2017, Buyer may extend payment due dates; however, price is subject to increase as outlined in Section 3 (Agreement Price) if manufacturing deposit is not received prior to June 15, 2017.

Once manufacturing deposit is received, buyer has five (5) business days to cancel and obtain refund of manufacturing deposit less ten percent (10%) for administrative costs. After five (5) business days, any cancellation will result in forfeiture of the deposit.

Remaining invoice(s), if any, will be submitted on a percent complete basis, with payment due upon receipt of invoice. Buyer agrees that shipment of goods may or may not, at Seller's discretion, be initiated prior to receipt of full payment of completed goods and that payment is considered received upon clearance of payment at seller's bank. Buyer agrees that remaining balance will be paid promptly upon invoice and understands that goods subject to payments over 30 days from invoice date will be subject to storage fees equivalent to 2% of the total order as well as a service charge equal to the lesser of the maximum allowable legal interest rate or 2% of the amount due at the end of each month. Unless otherwise agreed in writing, a balance due and unpaid 60 days from invoice date may be subject to order cancellation and forfeiture of deposit at seller's sole discretion. Buyer shall pay all costs (including attorneys' fees) incurred by Seller in attempting to collect amounts due and otherwise enforcing these terms and conditions. If requested, Seller will provide appropriate lien waivers upon receipt of payment. Seller may at any time decline to ship, make delivery, or perform work except upon receipt of payment or upon other terms and conditions satisfactory to Seller

5. COMPREHENSIVE WARRANTY

For equipment manufactured by Seller, Seller shall warrant the equipment until the earlier of twelve (12) months from initial start-up or eighteen (18) months from date of shipment against failure due to defects in material and/or manufacturing to the capacities and ratings set forth in Company's catalogs and bulletins ("Warranty"). Equipment, material, and or parts that are not manufactured directly by Seller are not warranted by Seller and carry such warranties as may be extended by the respective manufacturer. Exclusions from this Warranty include damage or failure arising from: wear and tear; corrosion, erosion, deterioration; modifications made by others to the Equipment; repairs or alterations by a party other than Company that adversely affects the stability or reliability of the Equipment; vandalism; neglect; accident; adverse weather or environmental conditions; abuse or improper use; improper installation; commissioning by a party other than Seller; unusual physical or electrical or mechanical stress; operation with any accessory, equipment or part not specifically approved by Seller; refrigerant not recommended or supplied by Seller; and or lack of proper start-up or maintenance as recommended by Seller. Seller shall not be obligated to pay for the cost of lost refrigerant or lost product or any other direct, indirect, or consequential damages. Seller's obligations and liabilities under this Warranty are limited to furnishing replacement equipment or OEM parts, at its option, FCA (Incoterms 2000) factory or warehouse (f.o.b. factory or warehouse for US domestic purposes) at Seller-designated shipping point, freight-allowed to Seller's warranty agent's stock location, for all non-conforming Seller-manufactured Equipment which have been returned by Buyer to Seller. Returns must have prior written approval by Seller and are subject to restocking and replacement charges where applicable. No warranty liability whatsoever shall attach to Seller until Buyer's complete order has been paid for in full and Seller's liability under this Warranty shall be limited to the purchase price of the Equipment shown to be defective. Additional warranty and service protection is available on an extra-cost basis and must be in writing and agreed to by an authorized signatory of the Seller. The warranty excludes: (a) labor, transportation and related costs incurred by Buyer; (b) reinstallation costs of repaired equipment; (c) reinstallation costs of replacement equipment;

(d) consequential damages of any kind; and, (e) reimbursement for loss caused by interruption of service.

EQUIPMENT MANUFACTURED BY SELLER THAT INCLUDES A REQUIRED START-UP AND SOLD IN NORTH AMERICA WILL NOT BE WARRANTED BY COMPANY UNLESS SELLER OR ITS AUTHORIZED AGENT PERFORMS THE EQUIPMENT STARTUP. SELELR MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, REGARDING PREVENTION OF MOLD/MOULD, FUNGUS, BACTERIA, MICROBIAL GROWTH, OR ANY OTHER CONTAMINATES. EXCEPT FOR SELLER'S WARRANTY EXPRESSLY SET FORTH HEREIN, SELLER DOES NOT MAKE, AND HEREBY EXPRESSLY DISCLAIMS, ANY WARRANTIES, EXPRESS OR IMPLIED CONCERNING ITS PRODUCTS, EQUIPMENT OR SERVICES, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY OF DESIGN, MERCHANTABILITY OR OF FITNESS FOR A PARTICULAR PURPOSE, OR OTHERS THAT ARE ALLEGED TO ARISE FROM COURSE OF DEALING OR TRADE.

6. SECURITY INTEREST

Buyer agrees that, unless Buyer makes full payment in advance, Seller will have a purchase money security interest in all Equipment to secure payment in full of all amounts due Seller and its order for the Equipment, together with these terms and conditions, form a security agreement (as defined by the UCC in the United States and as defined in the Personal Property Security Act in Canada). Buyer shall keep the Equipment free of all taxes and encumbrances, shall not remove the Equipment from its original installation point and shall not assign or transfer any interest in the Equipment until all payments due Seller have been made. The purchase money security interest granted herein attaches upon Seller's acceptance of Buyer's order and on receipt of the Equipment described in the accepted Proposal but prior to its installation. The parties have no agreement to postpone the time for attachment unless specifically noted in writing on the accepted order. Buyer will have no rights of set off against any amounts, which become payable to Seller under this Agreement or otherwise.

7. TITLE AND RISK OF LOSS

Title to and risk of loss of the Equipment shall pass to Buyer upon shipment; Buyer assumes title and control of the goods upon signature by the carrier on the bill of lading for the equipment. Seller shall pay the shipping fees and invoice the Buyer as defined in Section 4 of this Agreement.

8. TAXES

Buyer is required to pay all taxes in connection with the sale, purchase, delivery, and use of any of the goods (except for taxes based upon Seller's net income). The Agreement Price does not include any present or future foreign, federal, state, or local property, license, privilege, sales, use, excise, value added, gross receipts, or other like taxes or assessments. Such amounts will be itemized separately to Buyer, who will make prompt payment to Seller. Buyer agrees that shipment of goods may be delayed until Seller's receipt of full payment including any required taxes.

9. DELIVERY AND DELAYS

Delivery dates are approximate and not guaranteed. Seller will use commercially reasonable efforts to deliver the Equipment on or before the estimated delivery date will notify Buyer if the estimated delivery dates cannot be honored, and will deliver the Equipment and services as soon as practicable thereafter. In no event will Seller be liable for any damages or expenses caused by delays in delivery.

10. PERFORMANCE

Seller shall be obligated to furnish only the Equipment described in the Proposal and in submittal data (if such data is issued in connection with the order). Seller may rely on the acceptance of the Proposal, in submittal data, and in approved drawings as acceptance of the suitability of the Equipment for the particular project or location. Unless specifically stated in the Proposal, compliance with any local building codes or other laws or regulations relating to specifications or the location, use, or operation of the Equipment is the sole responsibility of Buyer. If Equipment is tendered that does not fully comply with the provisions of this Agreement, and Equipment is rejected by Buyer, Seller will have the right to cure within a reasonable time after notice thereof by substituting a conforming tender whether or not the time for performance has passed.

11. FORCE MAJEURE

Seller's duty to perform under this Agreement and the Equipment prices are contingent upon the non- occurrence of an Event of Force Majeure. An "Event of Force Majeure" shall mean any cause or event beyond the control of Seller. Without limiting the foregoing, "Event of Force Majeure" includes: acts of God; acts of terrorism, war or the public enemy; flood; earthquake; tornado; storm; fire; civil disobedience; pandemic insurrections; riots; labor/labour disputes; labor/labour or material shortages; sabotage; restraint by court order or public authority (whether valid or invalid); and action or non-action by or inability to obtain or keep in force the necessary governmental authorizations, permits, licenses, certificates or approvals if not caused by Seller; and the requirements of any applicable government in any manner that diverts either the material or the finished product to the direct or indirect benefit of the government. If the Seller shall be unable to carry out any material obligation under this Agreement due to an Event of Force Majeure, this Agreement shall at Seller's election (i) remain in effect but Seller's obligations shall be suspended until the uncontrollable event terminates or (ii) be terminated upon 10 days' notice to Buyer, in which event Buyer shall pay Seller for all parts of the Work furnished to the date of termination.

12. INDEMNITY

To the fullest extent permitted by law, Seller and Buyer shall indemnify, defend, and hold harmless each other from any and all claims, actions, costs, expenses, damages, and liabilities, including reasonable attorneys' fees, resulting from death or bodily injury or damage to real or personal property, to the extent caused by the negligence or misconduct of their respective employees or other authorized agents in connection with their activities within the scope of this Agreement. Neither party shall indemnify the other against claims, damages, expenses, or liabilities to the extent attributable to the acts or omissions of the other party. If the parties are both at fault, the obligation to indemnify shall be proportional to their relative fault. The duty to indemnify will continue in full force and effect, notwithstanding the expiration or early termination hereof, with respect to any claims based on facts or conditions that occurred prior to expiration or termination.

13. BUYER BREACH

Each of the following events or conditions shall constitute a breach by Buyer and shall give Seller the right, without an election of remedies, to terminate this Agreement or temporarily suspend performance by delivery of written notice: (a) Any failure by Buyer to pay amounts when due; or (b) any general assignment by Buyer for the benefit of its creditors, or if Buyer becomes bankrupt or insolvent or takes the benefit of any statute for bankrupt or insolvent debtors, or makes or proposes to make any proposal or arrangement with creditors, or if any steps are taken for the winding up or other termination of Buyer or the liquidation of its assets, or if a trustee, receiver, or similar person is appointed over any of the assets or interests of Buyer; (c) Any representation or warranty furnished by Buyer in connection with this Agreement is false or misleading in any material respect when made; or (d) Any failure by Buyer to perform or comply with any material provision of this Agreement. Buyer shall be liable to the Seller for all Equipment furnished and all damages sustained by Seller (including lost profit and overhead).

14. LIMITATION OF LIABILITY

The Seller will not be liable for any indirect, special, consequential, or punitive damages (including lost profits) arising out of or relating to this Agreement or the transactions it contemplates (whether for breach of contract, tort, negligence, or other form of action) and irrespective of whether the Seller has been advised of the possibility of any such damage. In no event will the Seller's liability exceed the price the Buyer paid to the Seller for the specific goods and services provided by the Seller giving rise to the claim or cause of action.

15. LIMITATION OF ACTIONS

No action arising out of or relating to this Agreement or the transactions it contemplates may be commenced against the seller more than twelve (12) months after the basis for such claim could reasonably have been discovered.

16. INTELLECTUAL PROPERTY; PATENT INDEMNITY

Seller retains all ownership, license, and other rights to all patents, trademarks, copyrights, trade secrets, and other intellectual property rights related to the Equipment, and, except for the right to use the Equipment sold, Buyer obtains no rights to use any such intellectual property. Seller agrees to defend any suit or proceeding brought against Buyer so far as such suit or proceeding is solely based upon a claim that the use of the Equipment provided by Seller constitutes infringement of any patent of the United States of America, provided Seller is promptly notified in writing and given authority, information, and assistance for defense of same. Seller will, at its option, procure for Buyer the right to continue to use said Equipment, or modify it so that it becomes non-infringing, or replace same with non-infringing Equipment, or to remove said Equipment and to refund the purchase price. The foregoing will not be construed to include any Agreement by Seller to accept any liability whatsoever in respect to patents for inventions including more than the Equipment furnished hereunder, or in respect of patents for methods and processes to be carried out with the aid of said Equipment. The provision of Equipment by Seller does not convey any license, by implication, estoppel, or otherwise, under patent claims covering combinations of said Equipment with other devices or elements. The foregoing states the entire liability of Seller with regard to patent infringement. Notwithstanding the provisions of this paragraph, Buyer will hold Seller harmless against any expense or loss resulting from infringement of patents or trademarks arising from compliance with Buyer's designs or specifications or instructions.

17. CANCELLATION

Equipment is specially manufactured in response to orders. An order placed with and accepted by Seller cannot be delayed, canceled, suspended, or extended except with Seller's written consent and upon written terms accepted by Seller that will reimburse Seller for and indemnify Seller against loss and provide Seller with a reasonable profit for its materials, time, labor, services, use of facilities, and otherwise. Buyer will be obligated to accept any Equipment shipped, tendered for delivery, or delivered by Seller pursuant to the order prior to any agreed delay, cancellation, suspension, or extension of the order. Any attempt by Buyer to unilaterally revoke, delay, or suspend acceptance for any reason whatsoever after it has agreed to delivery of or accepted any shipment shall constitute a breach of this Agreement. For purposes of this paragraph, acceptance occurs by any waiver of inspection, use, or possession of Equipment, payment of the invoice, or any indication of exclusive control exercised by Buyer.

18. CLAIMS

Seller will consider claims for concealed shortages in shipments or rejections due to failure to conform to an order only if such claims or rejections are made in writing within fifteen (15) days of delivery and are accompanied by the packing list and, if applicable, the reasons in detail why the Equipment does not conform to Buyer's order. Upon receiving authorization and shipping instructions from authorized personnel of Seller, Buyer may return rejected Equipment, transportation charges prepaid, for replacement. Seller may charge Buyer any costs resulting from the testing, handling, and disposition of any Equipment returned by Buyer which are not found by Seller to be nonconforming. Claims for Equipment damaged during shipment are not covered under the warranty provision stated herein. Seller agrees to promptly replace such damaged equipment only in the event that the Purchaser rejects or properly notes damaged equipment upon delivery by freight carrier. Purchaser agrees to carefully inspect all incoming shipments and accepts ownership of damaged equipment accepted at the time of delivery.

19. EXPORT LAWS

The obligation of Seller to supply Equipment under this Agreement is subject to the ability of Seller to supply such items consistent with applicable laws and regulations of the United States and other governments. Seller reserves the right to refuse to enter into or perform any order, and to cancel any order, under this Agreement if Seller in its sole discretion determines that performance of the transaction to which such order relates would violate any such applicable law or regulation. Buyer will pay all handling and other similar costs from Seller's factories including the costs of freight, insurance, export clearances, import duties, and taxes. Buyer will be "exporter of record" with respect to any export from the United States of America and will perform all compliance and logistics functions in connection therewith and will also comply with all applicable laws, rules, and regulations. Buyer understands that Seller and/or the Equipment are subject to laws and regulations of the United States of America which may require licensing or authorization for and/or prohibit export, re-export or diversion of Seller's Equipment to certain countries, and agrees it will not knowingly assist or participate in any such diversion or other violation of applicable United States of America or individual state laws and regulations. Buyer agrees to hold harmless and indemnify Seller for any damages resulting to Buyer or Seller from a breach of this paragraph by Buyer.

20. GENERAL

Except as provided below, to the maximum extent provided by law, this Agreement is made and shall be interpreted and enforced in accordance with the laws of the state of Colorado without regard to its conflict of law principles that might otherwise call for the application of a different state's law, and not including the United Nations Convention on Contracts for the International Sale of Goods. Any action or suit arising out of or related to this Agreement must be commenced within one year after the cause of action has accrued. To the extent the Equipment is being used at a site owned and or operated by any agency of the Federal Government, determination of any substantive issue of law shall be according to the Federal common law of Government contracts as enunciated and applied by Federal judicial bodies and boards of contract appeals of the Federal Government. This Agreement contains all of the agreements, representations and understandings of the parties and supersedes all previous understandings, commitments or agreements, oral or written, related to the subject matter hereof. This Agreement may not be amended, modified, or terminated except by a writing signed by the parties hereto. No documents shall be incorporated herein by reference except to the extent Seller is a signatory thereon. If any term or condition of this Agreement is invalid, illegal, or incapable of being enforced by any rule of law, all other terms and conditions of this Agreement will nevertheless remain in full force and effect as long as the economic or legal substance of the transaction contemplated hereby is not affected in a manner averse to any party hereto. Buyer may not assign, transfer, or convey this Agreement, or any part hereof, or its right, title, or interest herein, without the written consent of the Seller. Subject to the foregoing, this Agreement shall be binding upon and inure to the benefit of Buyer's permitted successors and assigns.

21. LIMITED WAIVER OF SOVEREIGN IMMUNITY

If Buyer is an Indian tribe (in the U.S.) or a First Nation or Band Council (in Canada), Buyer, whether acting in its capacity as a government, governmental entity, a duly organized corporate entity or otherwise, for itself and for its agents, successors, and assigns: (1) hereby provides this limited waiver of its sovereign immunity as to any damages, claims, lawsuit, or cause of action (herein "Action") brought against Buyer by Seller and arising or alleged to arise out of the furnishing by Seller of any product or service under this Agreement, whether such Action is based in contract, tort, strict liability, civil liability or any other legal theory; (2) agrees that jurisdiction and venue for any such Action shall be proper and valid (a) if Buyer is in the U.S., in any state or United States court located in the state in which Seller is performing this Agreement or (b) if Buyer is in Canada, in the superior court of the province or territory in which the work was performed; (3) expressly consents to such Action, and waives any objection to jurisdiction or venue; (4) waives any requirement of exhaustion of tribal court or administrative remedies for any Action arising out of or related to this Agreement; and (5) expressly acknowledges and agrees that Seller is not subject to the jurisdiction of Buyer's tribal court or any similar tribal forum, that Buyer will not bring any action against Seller in tribal court, and that Buyer will not avail itself of any ruling or direction of the tribal court permitting or directing it to suspend its payment or other obligations under this Agreement. The individual signing on behalf of Buyer warrants and represents that such individual is duly authorized to provide this waiver and enter into this Agreement and that this Agreement constitutes the valid and legally binding obligation of Buyer, enforceable in accordance with its terms.

22. COUNTERPARTS AND ELECTRONIC DOCUMENTS

This Agreement may be executed and delivered in counterparts, including by a facsimile or an electronic transmission thereof, each of which shall be deemed an original, but all together shall constitute but one and the same Agreement. Any document generated by the parties with respect to this Agreement, including this Agreement, may be imaged and stored electronically and introduced as evidence in any proceeding as if original business records. Neither party will object to the admissibility of such images as evidence in any proceeding on account of having been stored electronically.

BY SIGNING BELOW, you acknowledge you have the vested authority to acquiesce to the Terms and Conditions referencing the above-listed Suma estimate and also the Statement of Work for Engineering Design & Implementation Support ("Agreement for Professional Services") referencing the above-listed Suma estimate and hereby approve of the transaction as contemplated in this purchase order. This Purchase Agreement ("Agreement") is non-revocable and your signature shall serve as commitment to this Agreement and be binding upon the parties described herein, their heirs and assigns.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed and delivered by their duly authorized officers as of the date first written below.

AGREED AND ACCEPTED		AGREED AND ACCEPTED	
SURNA INC.		BUYER: Sante Veritas Therapeutics, Inc	
- Signature:	*/s/ Brandy Keen*	- Signature:	*/s/ Suzanne Wood*
- Print Name:	Brandy Keen	- Print Name:	Suzanne Wood
- Title:	Vice President of Sales	- Title:	Chief Financial Officer
- Date:	2/21/17	- Date:	2/21/17

1780 55th Street, Suite A
Boulder, CO 80301

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is dated as of March 1, 2017, between **SURNA INC**., a Nevada corporation (the "Company"), and each purchaser identified on the signature pages hereto (each, including its successors and assigns, a "Purchaser" and collectively, the "Purchasers").

WHEREAS, subject to the terms and conditions set forth in this Agreement and pursuant to Section 4(a)(2) of the Securities Act of 1933, as amended (the "Securities Act"), and Rule 506 promulgated thereunder, the Company desires to issue and sell to each Purchaser, and each Purchaser, severally and not jointly, desires to purchase from the Company, Units as more fully described in this Agreement.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are hereby acknowledged, the Company and each Purchaser agree as follows:

1.1 Definitions. In addition to the terms defined elsewhere in this Agreement: (a) capitalized terms that are not otherwise defined herein have the meanings as defined herein and (b) the following terms have the meanings set forth in this Section 1.1:

"Action" shall have the meaning ascribed to such term in Section 3.1.10.

"Affiliate" means any Person that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a Person, as such terms are used in and construed under Rule 405 under the Securities Act.

"Board of Directors" means the board of directors of the Company.

"Business Day" means any day except any Saturday, any Sunday, any day which is a federal legal holiday in the United States or any day on which banking institutions in the State of New York are authorized or required by law or other governmental action to close.

"Closing" means upon receipt of Subscriptions for any part of the Securities, at the discretion of the Company a closing will take place and the net proceeds from such Subscriptions will be paid to the Company. Subsequent Closings resulting in the offering of up to an aggregate of 18,750,000 Units (or $3,000,000) may take place at the discretion of the Company for up to one year after the initial Closing.

"Closing Date" means the day on which all of the Transaction Documents have been executed and delivered by the applicable parties thereto, and all conditions precedent to (i) the Purchasers' obligations to pay the Subscription Amount and (ii) the Company's obligations to deliver the Securities, in each case, have been satisfied or waived.

"Commission" or "SEC" means the United States Securities and Exchange Commission.

"Common Stock" means the common stock of the Company, par value $0.00001 per share, and any other class of securities into which such securities may hereafter be reclassified or changed.

"Common Stock Equivalents" means any securities of the Company or the Subsidiaries which would entitle the holder thereof to acquire at any time Common Stock, including, without limitation, any debt, right, option, or other instrument that is at any time convertible into or exercisable or exchangeable for, or otherwise entitles the holder thereof to receive, Common Stock.

"Disclosure Schedules" shall have the meaning ascribed to such term in Section 3.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Foreign Shell Bank," within the meaning of the USA Patriot Act, *i.e.*, a foreign bank that does not have a physical presence in any country and that is not affiliated with a bank that has a physical presence and an acceptable level of regulation and supervision.

"FCPA" means the Foreign Corrupt Practices Act of 1977, as amended.

"GAAP" shall mean generally accepted accounting principles consistently applied.

"Intellectual Property Rights" shall have the meaning ascribed to such term in Section 3.1.15.

"Liens" means a lien, charge, pledge, security interest, encumbrance, and right of first refusal, preemptive right or other restriction.

"Material Adverse Effect" shall have the meaning assigned to such term in Section 3.1.2.

"Material Permits" shall have the meaning ascribed to such term in Section 3.1.13.

"Non-Cooperative Jurisdiction" shall have the meaning ascribed to it by the Financial Action Task Force (FATF) or any successor entity, as amended from time to time. Namely a person resident in or whose subscription funds are transferred from or through an account in a country or territory which is designated as a "Non-Cooperative Jurisdiction" by FATF on Money Laundering.

"Person" means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof) or other entity of any kind.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an informal investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Purchaser Party" shall have the meaning ascribed to such term in Section 10.1.

"Required Approvals" shall have the meaning ascribed to such term in Section 3.1.5.

"Required Minimum" means, as of any date, the maximum aggregate number of shares of Common Stock then issued or potentially issuable in the future as components of the Units or underlying components of the Units pursuant to the Transaction Documents.

"Rule 144" means Rule 144 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended or interpreted from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same purpose and effect as such Rule.

"Securities" means the Common Stock and the Warrants comprising the Units.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Subscription Amount" shall mean, as to each Purchaser, the aggregate amount to be paid for a Unit or fractional Unit purchased hereunder as specified below such Purchaser's name on the signature page of this Agreement and next to the heading "Subscription Amount," in United States dollars and in immediately available funds.

"Subsidiary" means any subsidiary of the Company as set forth on Schedule A and shall, where applicable, also include any direct or indirect subsidiary of the Company formed or acquired after the date hereof.

"Trading Day" means a day on which the trading platforms of OTC Markets Inc. (or any successor entity) is open for trading.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE MKT, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the trading platforms of OTC Markets Inc. (or any successors to any of the foregoing).

"Transaction Documents" means this Agreement and the Warrants all exhibits and schedules thereto and hereto and any other documents or agreements executed in connection with the transactions contemplated hereunder.

"Unit" means and consists of (i) one (1) share of Common Stock and (ii) one (1) Warrant.

"Warrants" means, collectively, the Common Stock purchase warrants delivered to the Purchasers at the Closing in accordance with Section 2.2.1 hereof, which Warrants shall be exercisable immediately and have a term of exercise equal to three years, in the form of Exhibit B attached hereto.

"Warrant Shares" means the shares of Common Stock issuable upon exercise of the Warrants.

2.1 Closing. On the Closing Date, upon the terms and subject to the conditions set forth herein, substantially concurrent with the execution and delivery of this Agreement by the parties hereto, the Company agrees to sell, and the Purchasers agree to purchase, up to an aggregate of 18,750,000 Units at $0.16 per Unit for an aggregate offering of $3,000,000. Each Unit consists of (i) 1 share of Common Stock and (ii) 1 Warrant. Purchaser must purchase a minimum of 156,250 Units (or $25,000.00) and in increments thereof. Purchasers may purchase fractional increments or fewer than 156,250 Units at the discretion of the Company. Each Purchaser shall deliver to the Company, via wire transfer or a certified check, immediately available funds equal to its Subscription Amount and the Company shall deliver to each Purchaser its respective shares of Common Stock, Warrants as determined pursuant to Section 2.2.1, and the Company and each Purchaser shall deliver the other items set forth in Section 2.2.2 deliverable at the Closing.

2.2 Deliveries.

2.2.1 On or prior to the Closing Date (unless otherwise provided), the Company shall deliver or cause to be delivered to each Purchaser the following:

2.2.1.1 This Agreement duly executed by the Company;

2.2.1.2 A certificate evidencing a number of shares of Common Stock purchased as part of the Units by such Purchaser with such certificate delivered to Purchaser within 15 days after the Closing Date; and

2.2.1.3 A Warrant registered in the name of such Purchaser purchased as part of the Units by such Purchaser.

2.2.2 On or prior to the Closing Date, each Purchaser shall deliver or cause to be delivered to the Company the following:

2.2.2.1 This Agreement duly executed by such Purchaser; and

2.2.2.2 Such Purchaser's Subscription Amount by wire transfer to the account specified in writing by the Company.

2.3 Closing Conditions.

2.3.1 Company. The obligations of the Company hereunder in connection with the Closing are subject to the following:

2.3.1.1 The accuracy in all material respects on the Closing Date of the representations and warranties of the Purchasers contained herein (unless as of a specific date therein in which case they shall be accurate as of such date);

2.3.1.2 All obligations, covenants and agreements of each Purchaser required to be performed at or prior to the Closing Date shall have been performed; and

2.3.1.3 The delivery by each Purchaser of the items set forth in Section 2.2.2 of this Agreement.

2.3.2 Purchaser. The respective obligations of the Purchasers hereunder in connection with the Closing are subject to the following conditions being met:

2.3.2.1 The accuracy in all material respects when made and on the Closing Date of the representations and warranties of the Company contained herein (unless as of a specific date therein);

2.3.2.2 All obligations, covenants and agreements of the Company required to be performed at or prior to the Closing Date shall have been performed; and

2.3.2.3 The delivery by the Company of the items set forth in Section 2.2.1 of this Agreement.

3.1 Representations and Warranties of the Company. Except as set forth in the Disclosure Schedules, which Disclosure Schedules shall be deemed a part hereof and shall qualify any representation or otherwise made herein to the extent of the disclosure contained in the corresponding section of the Disclosure Schedules, the Company hereby makes the following representations and warranties to each Purchaser:

3.1. Subsidiaries. All of the direct and indirect subsidiaries of the Company are set forth on Schedule A. The Company owns, directly or indirectly, all of the capital stock or other equity interests of each Subsidiary free and clear of any Liens, and all of the issued and outstanding shares of capital stock of each Subsidiary are validly issued and are fully paid, non-assessable and free of preemptive and similar rights to subscribe for or purchase securities.

3.1.2 Organization and Qualification. The Company and each of the Subsidiaries is an entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. Neither the Company nor any Subsidiary is in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents. Each of the Company and the Subsidiaries is duly qualified to conduct business and is considered in good standing so long as failure to register as a foreign corporation or other entity does not create: (i) a material adverse effect on the legality, validity or enforceability of any Transaction Document, (ii) a material adverse effect on the results of operations, assets, business, prospects or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole, or (iii) a material adverse effect on the Company's ability to perform in any material respect on a timely basis its obligations under any Transaction Document (any of (i), (ii) or (iii), a "Material Adverse Effect") such that a Proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing or seeking to revoke, limit or curtail such power and authority or qualification.

3.1.3 Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by this Agreement and each of the other Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of this Agreement and each of the other Transaction Documents by the Company and the consummation by it of the transactions contemplated hereby and thereby have been duly authorized by all necessary action on the part of the Company and no further action is required by the Company, the Board of Directors or the Company's stockholders in connection herewith or therewith other than in connection with the Required Approvals. This Agreement and each other Transaction Document to which it is a party has been (or upon delivery will have been) duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

3.1.4 No Conflicts. The execution, delivery and performance by the Company of this Agreement and the other Transaction Documents to which it is a party, the issuance and sale of the Securities and the consummation by it of the transactions contemplated hereby and thereby do not and will not: (i) conflict with or violate any provision of the Company's or any Subsidiary's certificate or articles of incorporation, bylaws or other organizational or charter documents, (ii) conflict with, or constitute a default (or an event that with notice or lapse of time or both would become a default) under, result in the creation of any Lien upon any of the properties or assets of the Company or any Subsidiary, or give to others any rights of termination, amendment, acceleration or cancellation (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company or Subsidiary debt or otherwise) or other understanding to which the Company or any Subsidiary is a party or by which any property or asset of the Company or any Subsidiary is bound or affected, or (iii) subject to the Required Approvals, conflict with or result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company or a Subsidiary is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company or a Subsidiary is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not have or reasonably be expected to result in a Material Adverse Effect.

3.1.5 Filings, Consents and Approvals. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than the filing of Form D with the Commission and such filings as are required to be made under applicable state securities laws (collectively, the "Required Approvals").

3.1.6 Issuance of the Securities. The Securities are duly authorized and, when issued and paid for in accordance with the applicable Transaction Documents, will be duly and validly issued, fully paid and, with respect to the shares of Common Stock, non-assessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Warrant Shares, when issued in accordance with the terms of the Transaction Documents, will be validly issued, fully paid and non-assessable, free and clear of all Liens imposed by the Company other than restrictions on transfer provided for in the Transaction Documents. The Company has reserved from its duly authorized capital stock a number of shares of Common Stock for issuance of the Warrant Shares at least equal to the Required Minimum on the date hereof.

3.1.7 Capitalization. The capitalization of the Company shall also include the number of shares of Common Stock owned beneficially, and of record, by Affiliates of the Company as of the date hereof. No Person has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by the Transaction Documents. The issuance and sale of the Securities will not obligate the Company to issue shares of Common Stock or other securities to any Person (other than the Purchasers) and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under any of such securities. All of the outstanding shares of capital stock of the Company are duly authorized, validly issued, fully paid and non-assessable, have been issued in compliance with all federal and state securities laws, and none of such outstanding shares was issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. No further approval or authorization of any stockholder, the Board of Directors or others is required for the issuance and sale of the Securities. There are no stockholders agreements, voting agreements or other similar agreements with respect to the Company's capital stock to which the Company is a party or, to the knowledge of the Company, between or among any of the Company's stockholders.

3.1.8 SEC Reports and Financial Statements. The Company has filed all reports required to be filed by it under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) of the Exchange Act (the "SEC Reports"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the United States Securities and Exchange Commission (the "Commission") promulgated thereunder, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing.

3.1.9 Material Changes. Except as disclosed in an SEC Report: (i) there has been no event, occurrence or development that has had or that could reasonably be expected to result in a Material Adverse Effect, (ii) the Company has not incurred any liabilities (contingent or otherwise) that have not been repaid other than (A) trade payables and accrued expenses incurred in the ordinary course of business consistent with past practice, and (B) liabilities not required to be reflected in the Company's financial statements pursuant to GAAP, (iii) the Company has not altered its method of accounting, (iv) the Company has not declared or made any dividend or distribution of cash or other property to its shareholder or purchased, redeemed or made any agreements to purchase or redeem any shares of Common Stock and (v) the Company has not issued any equity securities to any officer, manager, or Affiliate, except pursuant to existing Company stock option plans.

3.1.10 Litigation. There is no action, suit, inquiry, notice of violation, proceeding or investigation pending or, to the knowledge of the Company, threatened against or affecting the Company, any Subsidiary or any of their respective properties before or by any court, arbitrator, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) (collectively, an "Action") which (i) adversely affects or challenges the legality, validity or enforceability of any of the Transaction Documents or the Securities or (ii) could, if there were an unfavorable decision, have or reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any Subsidiary, nor any director or officer thereof, is or has been the subject of any Action involving a claim of violation of or liability under federal or state securities laws or a claim of breach of fiduciary duty. There has not been, and to the knowledge of the Company, there is not pending or contemplated, any investigation by the Commission involving the Company or any current or former director or officer of the Company.

3.1.11 Labor Relations. No labor dispute exists or, to the knowledge of the Company, is imminent with respect to any of the employees of the Company, which could reasonably be expected to result in a Material Adverse Effect. None of the Company's or its Subsidiaries' employees is a member of a union that relates to such employee's relationship with the Company or such Subsidiary, and neither the Company nor any of its Subsidiaries is a party to a collective bargaining agreement, and the Company and its Subsidiaries believe that their relationships with their employees are good. To the knowledge of the Company, no executive officer of the Company or any Subsidiary, is, or is now expected to be, in violation of any material term of any employment contract, confidentiality, disclosure or proprietary information agreement or non-competition agreement, or any other contract or agreement or any restrictive covenant in favor of any third party, and the continued employment of each such executive officer does not subject the Company or any of its Subsidiaries to any liability with respect to any of the foregoing matters. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

3.1.12 Compliance. Neither the Company nor any Subsidiary: (i) is in default under or in violation of (and no event has occurred that has not been waived that, with notice or lapse of time or both, would result in a default by the Company or any Subsidiary under), nor has the Company or any Subsidiary received notice of a claim that it is in default under or that it is in violation of, any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound (whether or not such default or violation has been waived), (ii) is in violation of any judgment, decree or order of any court, arbitrator or other governmental authority or (iii) is or has been in violation of any statute, rule, ordinance or regulation of any governmental authority, including without limitation all foreign, federal, state and local laws relating to taxes, environmental protection, occupational health and safety, product quality and safety and employment and labor matters, except in each case as could not have or reasonably be expected to result in a Material Adverse Effect.

3.1.13 Regulatory Permits. The Company and the Subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state, local or foreign regulatory authorities necessary to conduct their respective businesses, except where the failure to possess such permits could not reasonably be expected to result in a Material Adverse Effect ("Material Permits"), and neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation or modification of any Material Permit.

3.1.14 Title to Assets. The Company and the Subsidiaries own no real property and have good and marketable title in all personal property owned by them that is material to the business of the Company and the Subsidiaries, in each case free and clear of all Liens, except for (i) Liens as do not materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company and the Subsidiaries and (ii) Liens for the payment of federal, state or other taxes, for which appropriate reserves have been made therefor in accordance with GAAP and, the payment of which is neither delinquent nor subject to penalties. Any real property and facilities held under lease by the Company and the Subsidiaries are held by them under valid, subsisting and enforceable leases with which the Company and the Subsidiaries are in material compliance.

3.1.15 Intellectual Property. The Company and the Subsidiaries have, or have rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, trade secrets, inventions, copyrights, licenses and other intellectual property rights and similar rights as necessary or required for use in connection with their respective businesses and which the failure to so have could have a Material Adverse Effect (collectively, the "Intellectual Property Rights"). None of, and neither the Company nor any Subsidiary has received a notice (written or otherwise) that any of, the Intellectual Property Rights has expired, terminated or been abandoned, or is expected to expire or terminate or be abandoned, within two (2) years from the date of this Agreement. Neither the Company nor any Subsidiary has received a written notice of a claim or otherwise has any knowledge that the Intellectual Property Rights violate or infringe upon the rights of any Person, except as could not have or reasonably be expected to not have a Material Adverse Effect. To the knowledge of the Company, all such Intellectual Property Rights are enforceable and there is no existing infringement by another Person of any of the Intellectual Property Rights. The Company and its Subsidiaries have taken reasonable security measures to protect the secrecy, confidentiality and value of all of their intellectual properties, except where failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

3.1.16 Transactions With Affiliates and Employees. Except as set forth in an SEC Report, none of the officers or directors of the Company or any Subsidiary and, to the knowledge of the Company, none of the employees of the Company or any Subsidiary is presently a party to any transaction with the Company or any Subsidiary (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, providing for the borrowing of money from or lending of money too or otherwise requiring payments to or from any officer, director or such employee or, to the knowledge of the Company, any entity in which any officer, director, or any such employee has a substantial interest or is an officer, director, trustee, stockholder, member or partner, in each case in excess of $120,000 other than for: (i) payment of salary or consulting fees for services rendered, (ii) reimbursement for expenses incurred on behalf of the Company and (iii) other employee benefits, including stock option agreements under any stock option plan of the Company.

3.1.17 Private Placement. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, no registration under the Securities Act is required for the offer and sale of the Securities by the Company to the Purchasers as contemplated hereby.

3.1.18 Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become an "investment company" subject to registration under the Investment Company Act of 1940, as amended.

3.1.19 Registration Rights. Other than each of the Purchasers, no Person has any right to cause the Company to effect the registration under the Securities Act of any securities of the Company or any Subsidiary.

3.1.20 Disclosure. All of the disclosures furnished by or on behalf of the Company to the Purchasers regarding the Company and its business and the transactions contemplated hereby, including the Disclosure Schedules to this Agreement, are true and correct in all materials respects and do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading. The Company acknowledges and agrees that no Purchaser makes or has made any representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in Section 3.2 hereof.

3.1.21 No Integrated Offering. Assuming the accuracy of the Purchasers' representations and warranties set forth in Section 3.2, neither the Company, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause this offering of the Securities to be integrated with prior offerings by the Company for purposes of the Securities Act which would require the registration of any such securities under the Securities Act.

3.1.22 Tax Status. The Company and its subsidiaries have sustained losses from inception and, as a result, have not filed all United States federal, state and local income and all foreign income and franchise tax returns, reports and declarations required by any jurisdiction to which it is subject. There are no unpaid taxes in any material amount due to the taxing authority of any jurisdiction, however, as a consequence of not filing all returns, reports or declarations there may be penalties assessed for non-filing. Management has made no determination as to the amount, if any, of such penalties.

3.1.23 No General Solicitation. Neither the Company nor any person acting on behalf of the Company has offered or sold any of the Securities by any form of general solicitation or general advertising. The Company has offered the Securities for sale only to the Purchasers and certain other "accredited investors" within the meaning of Rule 501 under the Securities Act.

3.1.24 Foreign Corrupt Practices. Neither the Company nor any Subsidiary, nor to the knowledge of the Company or any Subsidiary, any agent or other person acting on behalf of the Company or any Subsidiary, has: (i) directly or indirectly, used any funds for unlawful contributions, gifts, entertainment or other unlawful expenses related to foreign or domestic political activity, (ii) made any unlawful payment to foreign or domestic government officials or employees or to any foreign or domestic political parties or campaigns from corporate funds, (iii) failed to disclose fully any contribution made by the Company or any Subsidiary (or made by any person acting on its behalf of which the Company is aware) which is in violation of law or (iv) violated in any material respect any provision of FCPA.

3.1.25 Office of Foreign Assets Control. Neither the Company nor any Subsidiary nor, to the Company's knowledge, any director, officer, agent, employee or affiliate of the Company or any Subsidiary is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC").

3.1.26 Employees. Neither the Company nor any of its Subsidiaries has any collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's knowledge, threatened with respect to the Company or its Subsidiaries. Except as set forth in an SEC Report neither the Company nor any of its Subsidiaries is a party to or bound by any currently effective employment contract, deferred compensation arrangement, bonus plan, incentive plan, profit sharing plan, retirement agreement or other employee compensation plan or agreement with any of its executive officers. To the Company's knowledge, no employee of the Company or any Subsidiary, nor any consultant with whom the Company or any Subsidiary has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company (or any Subsidiary) because of the nature of the business to be conducted by the Company (or any Subsidiary); and to the Company's knowledge the continued employment by the Company (and its Subsidiaries) of their respective present employees, and the performance of the Company's (and Subsidiaries') contracts with its independent contractors, will not result in any such violation. The Company has not received any notice alleging that any such violation has occurred. Except as set forth in an SEC Report no employee of the Company or any Subsidiary has been granted the right to continued employment by the Company (or any Subsidiary) or to any material compensation following termination of employment with the Company (or any Subsidiary). The Company is not aware that any officer, key employee or group of employees intends to terminate his, her or their employment with the Company (or any Subsidiary) nor does the Company have a present intention to terminate the employment of any officer, key employee or group of employees. The Company and its Subsidiaries are in compliance with all U.S. federal, state, local and foreign laws and regulations relating to employment and employment practices, terms and conditions of employment and wages and hours, except where the failure to be in compliance could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

3.1.27 Employee Benefits. Except as disclosed in an SEC Report, the Company does not maintain, and is not required by any applicable law to maintain, any "employee benefit plan" as such term is defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended, or any other employee benefit plan, program or arrangement of any kind.

3.1.28 No Disqualification Events. With respect to the Securities to be offered and sold hereunder in reliance on Rule 506 under the Securities Act, none of the Company, any of its predecessors, any affiliated issuer, any director, executive officer, other officer of the Company participating in the offering hereunder, any beneficial owner of 20% or more of the Company's outstanding voting equity securities, calculated on the basis of voting power, nor any promoter (as that term is defined in Rule 405 under the Securities Act) connected with the Company in any capacity at the time of sale (each, an "Issuer Covered Person" and, together, "Issuer Covered Persons") is subject to any of the "Bad Actor" disqualifications described in Rule 506(d)(1)(i) to (viii) under the Securities Act (a "Disqualification Event"), except for a Disqualification Event covered by Rule 506(d)(2) or (d)(3). The Company has exercised reasonable care to determine whether any Issuer Covered Person is subject to a Disqualification Event. The Company has complied, to the extent applicable, with its disclosure obligations under Rule 506(e), and has furnished to the Purchasers a copy of any disclosures provided thereunder.

3.1.29 Other Covered Persons. The Company is not aware of any person (other than any Issuer Covered Person) that has been or will be paid (directly or indirectly) remuneration for solicitation of purchasers in connection with the sale of any Securities.

3.2 Representations and Warranties of the Purchasers. Each Purchaser, for itself and for no other Purchaser, hereby represents and warrants as of the date hereof and as of the Closing Date to the Company as follows (unless as of a specific date therein):

3.2.1 Investor Information Form. The Company may rely upon and is a third party beneficiary of the Purchaser's representations, warranties, covenants and agreements set forth in this Agreement and Exhibit A "Investor Information Form" completed by the Purchaser and delivered to the Company. Further the Purchaser attests to the fact that that they comply with the Investor Suitability Requirements as outlined in Exhibit C.

3.2.2 Organization; Authority. Such Purchaser is either an individual or an entity duly incorporated or formed, validly existing and in good standing under the laws of the jurisdiction of its incorporation or formation with full right, corporate, partnership, limited liability company or similar power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and otherwise to carry out its obligations hereunder and thereunder. The execution and delivery of the Transaction Documents and performance by such Purchaser of the transactions contemplated by the Transaction Documents have been duly authorized by all necessary corporate, partnership, limited liability company or similar action, as applicable, on the part of such Purchaser. Each Transaction Document to which it is a party has been duly executed by such Purchaser, and when delivered by such Purchaser in accordance with the terms hereof, will constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms, except: (i) as limited by general equitable principles and applicable bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting enforcement of creditors' rights generally, (ii) as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies and (iii) insofar as indemnification and contribution provisions may be limited by applicable law.

3.2.3 Purchase Entirely for Own Account. This Agreement is made with the Purchaser in reliance upon the Purchaser's representation to the Company, which by the Purchaser's execution of this Agreement, the Purchaser hereby confirms, that the Securities to be acquired by the Purchaser will be acquired for investment for the Purchaser's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof, and that the Purchaser has no present intention of selling, granting any participation in, or otherwise distributing the same. By executing this Agreement, the Purchaser further represents that the Purchaser does not presently have any contract, undertaking, agreement or arrangement with any Person to sell, transfer or grant participations to such Person or to any third Person, with respect to any of the Securities. The Purchaser has not been formed for the specific purpose of acquiring the Securities.

3.2.4 Disclosure of Information. The Purchaser has had an opportunity to discuss the Company's business, management, financial affairs and the terms and conditions of the offering of the Units with the Company's management and has had an opportunity to review the Company's facilities, and has carefully considered the risks associated with an investment in the Units (including, without limitation, the Risk Factors set forth in Exhibit D herein). The Purchaser has consulted his, her or its own legal, tax, financial, investment and other advisors in connection with such Purchaser's execution and delivery of this Agreement and such Purchaser's investment in the Securities to be acquired by such Purchaser pursuant to this Agreement, and acknowledges that the Company is giving no such legal, tax, financial or investment advice to the Purchaser.

3.2.5 Anti-Money Laundering Matters. The Purchaser is in compliance with all applicable provisions of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "**USA Patriot Act**"), the U.S. Bank Secrecy Act (the "**BSA**") and all other anti-money laundering laws and applicable regulations adopted to implement the provisions of such laws, including policies and procedures that can be reasonably expected to detect and cause the reporting of transactions under Section 5318 of the BSA. Neither the Purchaser, nor any holder of any beneficial interest in the Securities (each a "**Beneficial Owner**") is or will be:

3.2.5.1 A person or entity listed in the Annex to Executive Order 13224 (2001) issued by the President of the United States (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), which is posted on the website of the U.S. Department of Treasury (http://www.treas.gov);

3.2.5.2 Named on the List of Specially Designated Nationals and Blocked Persons maintained by the U.S. Office of Foreign Assets Control (OFAC), which is posted on the website of the U.S. Department of Treasury (http://www.treas.gov);

3.2.5.3 A Designated National as defined in the Cuban Assets Control Regulations, 31 CFR Part 515;

3.2.5.4 A Foreign Shell Bank;

3.2.5.5 A person resident in or whose subscription funds are transferred from or through an account in a Non-Cooperative Jurisdiction; or

3.2.5.6 A person resident in a jurisdiction designated by the U.S. Secretary of the Treasury under Sections 311 or 312 of the USA Patriot Act as warranting special measures due to money-laundering concerns.

The Purchaser agrees to promptly notify the Company of any change in any information affecting this representation and warranty. Neither the Purchaser nor any Beneficial Owner is a senior foreign political figure, which means a current or former senior official in the executive, legislative, administrative, military, or judicial branches of a foreign government (whether or not elected), a senior official of a major foreign political party, or a senior executive of a foreign government-owned commercial enterprise. This restriction on senior foreign political figures also applies to any immediate family member of such figure (a spouse, parent, sibling, child, or a spouse's parent, sibling or child) or close associate of such figure (a person who is publicly known to maintain, or who actually maintains, a close personal or professional relationship with such individual). No portion of the purchase price: (i) does or will originate from, nor will it be routed through, an account maintained at a Foreign Shell Bank, an "offshore bank", or a bank organized or chartered under the laws of a Non-Cooperative Jurisdiction, (ii) has been or will be derived from, or related to, any activity that is deemed criminal under applicable law, or (iii) causes or will cause the Company, or any of its affiliates to be in violation of the BSA, the U.S. Money Laundering Control Act of 1986 or the U.S. International Money Laundering Abatement and Anti-Terrorism Financing Act of 2001. The Purchaser is not otherwise prohibited from investing in the Company pursuant to applicable anti-money laundering, anti-bribery and corruption, antiterrorist or asset or exchange control laws, regulations, rules or orders. The Purchaser acknowledges and agrees that if at any time it is discovered that any of the representations in this Section 3.13 are incorrect, or if otherwise required by applicable law related to money laundering, anti-bribery and corruption, antiterrorism or asset or exchange controls and similar activities, the Company may, in its sole discretion, undertake appropriate actions to ensure compliance with applicable law, including but not limited to freezing, segregating or withdrawing the Purchaser's interest in the Company. The Purchaser agrees to provide to the Company any additional information or documentation that the Company deems necessary or appropriate to ensure compliance with all applicable laws concerning money laundering, anti-bribery and corruption, antiterrorism or asset or exchange controls and similar activities. The Purchaser shall promptly notify the Company if any of the representations in this Section cease to be true and accurate.

3.2.6 FATCA Matters. The Purchaser acknowledges that, to the extent applicable, the Company will seek to comply with the Foreign Account Tax Compliance Act provisions of the Code and any rules, regulations, forms, instructions, other guidance and any intergovernmental agreements issued in connection therewith (the "**FATCA Provisions**"). In furtherance of these efforts, the Purchaser agrees to promptly deliver any additional documentation or information, and updates thereto as applicable, which the Company may request in order to comply with the FATCA Provisions. The Purchaser acknowledges and agrees that, notwithstanding anything to the contrary contained in the Transaction Documents or any other agreement or document, the failure to promptly comply with such requests, or to provide such additional information, may result in the withholding of amounts with respect to, or other limitations on, distributions made to the Purchaser and such other reasonably necessary or advisable action by the Company with respect to the Securities, and the Purchaser shall have no claim, and shall not pursue any claim, against the Company or any other Person in connection therewith.

3.2.7 Purchaser Status. At the time such Purchaser was offered the Securities, it was, and as of the date hereof it is, and on each date on which it exercises any Warrants, it will be an "accredited investor" as that term is defined by Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended. The Purchaser hereby reaffirms the statements made in the Accredited Investor Questionnaire completed by the Purchaser prior to receiving information about the Offering.

3.2.8 Experience of Such Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

3.2.9 General Solicitation. Such Purchaser is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

3.2.10 Residence. If the Purchaser is an individual, then the Purchaser resides in the state or province identified in the address of the Purchaser set forth in Exhibit A. If the Purchaser is a partnership, corporation, limited liability company or other entity, then the Purchaser's principal place of business is in the state or province identified in the address of the Purchaser set forth on Exhibit A.

The Company acknowledges and agrees that the representations contained in Section 3.2 shall not modify, amend or affect such Purchaser's right to rely on the Company's representations and warranties contained in this Agreement or any representations and warranties contained in any other Transaction Document or any other document or instrument executed and/or delivered in connection with this Agreement or the consummation of the transaction contemplated hereby.

4.1 Restricted Securities. The Purchaser understands that the Securities, as well as the Warrant Shares, have not been, and will not be, registered under the Securities Act, by reason of a specific exemption from the registration provisions of the Securities Act which depends upon, among other things, the bona fide nature of the investment intent and the accuracy of the Purchaser's representations as expressed herein. The Purchaser understands that the Securities and Warrant Shares are or upon issuance will be "restricted securities" under applicable U.S. federal and state securities laws and that, pursuant to these laws, the Purchaser must hold the Securities and Warrant Shares indefinitely unless they are registered with the SEC and qualified by state authorities, or an exemption from such registration and qualification requirements is available. Except as provided herein, the Purchaser acknowledges that the Company has no obligation to register or qualify the Securities or Warrant Shares for resale. The Purchaser further acknowledges that if an exemption from registration or qualification is available, it may be conditioned on various requirements including, but not limited to, the time and manner of sale, the holding period for the Securities and Warrant Shares, and on requirements relating to the Company which are outside of the Purchaser's control, and which the Company is under no obligation and may not be able to satisfy. The Purchaser understands that this offering is not intended to be part of a public offering, and that the Purchaser will not be able to rely on the protection of Section 11 of the Securities Act.

4.2 Legends. The Purchaser understands that the Securities and, upon issuance, the Warrant Shares, may be notated with one or all of the following legends:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. HEDGING TRANSACTIONS INVOLVING SECURITIES OFFERED AND SOLD IN RELIANCE ON REGULATION S MAY NOT BE CONDUCTED UNLESS IN COMPLIANCE WITH THE SECURITIES ACT OF 1933, AS AMENDED."

Any other legend set forth in, or required by, this Agreement or any other Transaction Documents.

Any legend required by the securities laws of any state to the extent such laws are applicable to the Securities represented by the certificate, instrument, or book entry so legended.

4.3 Transfer Restrictions.

4.3.1 The Securities may only be disposed of in compliance with state and federal securities laws. In connection with any transfer of Securities other than pursuant to an effective registration statement or Rule 144, to the Company or to an Affiliate of a Purchaser or in connection with a pledge as contemplated in Section 4.1.2, the Company may require the transferor thereof to provide to the Company an opinion of counsel selected by the transferor and reasonably acceptable to the Company, which such counsel and the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration of such transferred Securities under the Securities Act. As a condition of transfer, any such transferee shall agree in writing to be bound by the terms of this Agreement and shall have the rights and obligations of a Purchaser under this Agreement.

4.3.2 The Company acknowledges and agrees that a Purchaser may from time to time pledge pursuant to a bona fide margin agreement with a registered broker-dealer or grant a security interest in some or all of the Securities to a financial institution that is an "accredited investor" as defined in Rule 501(a) under the Securities Act and who agrees to be bound by the provisions of this Agreement, if required under the terms of such arrangement, such Purchaser may transfer pledged or secured Securities to the pledgees or secured parties. Such a pledge or transfer would not be subject to approval of the Company and no legal opinion of legal counsel of the pledgee, secured party or pledgor shall be required in connection therewith. Further, no notice shall be required of such pledge. At the appropriate Purchaser's expense and subject to commercially reasonable timelines, the Company will execute and deliver such reasonable documentation as a pledgee or secured party of Securities may reasonably request in connection with a pledge or transfer of the Securities.

5.1 Acknowledgment of Dilution. The Company acknowledges that the issuance of the Securities and Warrant Shares may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligations under the Transaction Documents, including, without limitation, its obligation to issue the Warrant Shares pursuant to the Transaction Documents, are unconditional and absolute and not subject to any right of set off, counterclaim, delay or reduction, regardless of the effect of any such dilution or any claim the Company may have against any Purchaser and regardless of the dilutive effect that such issuance may have on the ownership of the other stockholders of the Company.

6.1 Integration. The Company shall not sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the sale of the Securities.

7.1 Exercise Procedures. A form of Notice of Exercise included in the Warrants set forth the totality of the procedures required of the Purchasers in order to exercise the Warrants. Without limiting the preceding sentences, no ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required in order to exercise the Warrants into shares of Common Stock. No additional legal opinion, other information or instructions shall be required of the Purchasers to exercise the Warrants. The Company shall honor exercises of the Warrants and shall deliver Warrant Shares in accordance with the terms, conditions and time periods set forth in the Transaction Documents.

8.1 Securities Laws Disclosure; Publicity. The Company shall be entitled, without the prior approval of the Purchaser, to make any press release or SEC, OTC Markets ("OTCMKTS") (or other applicable trading market) or Financial Industry Regulatory Authority ("FINRA") filings with respect to this transaction as is required by applicable law and regulations. Purchaser shall not issue any such press release or otherwise make any such public statement with respect to this transaction without the prior consent of the Company. Notwithstanding the foregoing, the Company shall not publicly disclose the name of any Purchaser, or include the name of any Purchaser in any filing with the Commission or any regulatory agency, without the prior written consent of such Purchaser, except as required by federal securities law or regulation. The Company covenants and agrees that, neither it, nor any other Person acting on its behalf, will provide any Purchaser or its agents or counsel with any information that the Company believes constitutes material non-public information, unless prior thereto such Purchaser shall have entered into a written agreement with the Company regarding the confidentiality and use of such information. The Company understands and confirms that each Purchaser shall be relying on the foregoing covenant in effecting transactions in securities of the Company.

9.1 Use of Proceeds. The Company shall use the net proceeds from the sale of the Securities hereunder for working capital purposes.

10.1 Indemnification of Purchasers. Subject to the provisions of this Section, the Company will indemnify and hold each Purchaser and its directors, officers, shareholders, members, partners, employees and agents (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title), each Person who controls such Purchaser (within the meaning of Section 15 of the Securities Act and Section 20 of the Exchange Act), and the directors, officers, shareholders, agents, members, partners or employees (and any other Persons with a functionally equivalent role of a Person holding such titles notwithstanding a lack of such title or any other title) of such controlling persons (each, a "Purchaser Party") harmless from any and all losses, liabilities, obligations, claims, contingencies, damages, costs and expenses, including all judgments, amounts paid in settlements, court costs and reasonable attorneys' fees and costs of investigation that any such Purchaser Party may suffer or incur as a result of or relating to (a) any breach of any of the representations, warranties, covenants or agreements made by the Company in this Agreement or in the other Transaction Documents or (b) any action instituted against the Purchaser Parties in any capacity, or any of them or their respective Affiliates, by any stockholder of the Company who is not an Affiliate of such Purchaser Party, with respect to any of the transactions contemplated by the Transaction Documents (unless such action is based upon a breach of such Purchaser Party's representations, warranties or covenants under the Transaction Documents or any agreements or understandings such Purchaser Party may have with any such stockholder or any violations by such Purchaser Party of state or federal securities laws or any conduct by such Purchaser Party which constitutes fraud, gross negligence, willful misconduct or malfeasance). If any action shall be brought against any Purchaser Party in respect of which indemnity may be sought pursuant to this Agreement, such Purchaser Party shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof with counsel of its own choosing reasonably acceptable to the Purchaser Party. Any Purchaser Party shall have the right to employ separate counsel in any such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Purchaser Party except to the extent that (i) the employment thereof has been specifically authorized by the Company in writing, (ii) the Company has failed after a reasonable period of time to assume such defense and to employ counsel or (iii) in such action there is, in the reasonable opinion of counsel, a material conflict on any material issue between the position of the Company and the position of such Purchaser Party, in which case the Company shall be responsible for the reasonable fees and expenses of no more than one such separate counsel. The Company will not be liable to any Purchaser Party under this Agreement (y) for any settlement by a Purchaser Party effected without the Company's prior written consent, which shall not be unreasonably withheld or delayed; or (z) to the extent, but only to the extent that a loss, claim, damage or liability is attributable to any Purchaser Party's breach of any of the representations, warranties, covenants or agreements made by such Purchaser Party in this Agreement or in the other Transaction Documents. The indemnification required by this Section shall be made by periodic payments of the amount thereof during the course of the investigation or defense, as and when bills are received or are incurred. The indemnity agreements contained herein shall be in addition to any cause of action or similar right of any Purchaser Party against the Company or others and any liabilities the Company may be subject to pursuant to law.

11.1 Reservation of Securities.

11.1.1 The Company shall maintain a reserve from its duly authorized shares of Common Stock for issuance pursuant to the Transaction Documents in such amount as may then be required to fulfill its obligations in full under the Transaction Documents.

11.1.2 If, on any date, the number of authorized but unissued (and otherwise unreserved) shares of Common Stock is less than 120% (excluding those triggered by or through default provisions in the Transaction Documents) of (i) the Required Minimum on such date, minus (ii) the number of shares of Common Stock previously issued pursuant to the Transaction Documents, then the Board of Directors shall use commercially reasonable efforts to amend the Company's certificate or articles of incorporation to increase the number of authorized but unissued shares of Common Stock to at least the Required Minimum at such time (minus the number of shares of Common Stock previously issued pursuant to the Transaction Documents), as soon as possible and in any event not later than the 75th day after such date; provided that the Company will not be required at any time to authorize a number of shares of Common Stock greater than the maximum remaining number of shares of Common Stock that could possibly be issued after such time pursuant to the Transaction Documents.

12.1 Form D; Blue Sky Filings. The Company agrees to timely file a Form D with respect to the Securities as required under Regulation D and to provide a copy thereof, promptly upon request of any Purchaser. The Company shall take such action as the Company shall reasonably determine is necessary in order to obtain an exemption for, or to qualify the Securities for, sale to the Purchasers at the Closing under applicable securities or "Blue Sky" laws of the states of the United States, and shall provide evidence of such actions promptly upon request of any Purchaser.

13.1 Additional Investment Right. From the date hereof until one year after the Closing Date, the Company may continue to offer any unsold Units to purchasers on the same terms and conditions as set forth in this Agreement. In order to effectuate a purchase and sale of such Units, the Company and the purchasers shall enter into a Securities Purchase Agreement identical to this Agreement and shall include updated disclosure schedules.

14.1 Termination. This Agreement may be terminated by any Purchaser, as to such Purchaser's obligations hereunder only and without any effect whatsoever on the obligations between the Company and the other Purchasers, by written notice to the other parties, if the Closing has not been consummated on or before February 28, 2018; provided, however, that such termination will not affect the right of any party to sue for any breach by any other party (or parties).

15.1 Fees and Expenses. Except as expressly set forth in the Transaction Documents to the contrary, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay any fees, stamp taxes and other taxes and duties levied in connection with the delivery of any Securities to the Purchasers.

16.1 Entire Agreement. The Transaction Documents, together with the exhibits and schedules thereto, contain the entire understanding of the parties with respect to the subject matter hereof and thereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such documents, exhibits and schedules.

17.1 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of: (a) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto at or prior to 5:30 p.m. (New York City time) on a Trading Day, (b) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile number set forth on the signature pages attached hereto on a day that is not a Trading Day or later than 5:30 p.m. (New York City time) on any Trading Day, (c) the second (2nd) Trading Day following the date of receipt, if sent by U.S. nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications shall be as set forth on the signature pages attached hereto.

18.1 Amendments; Waivers. No provision of this Agreement may be waived, modified, supplemented or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding at least 51% in interest of the Securities then outstanding or, in the case of a waiver, by the party against whom enforcement of any such waived provision is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

19.1 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

20.1 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The Company may not assign this Agreement or any rights or obligations hereunder without the prior written consent of each Purchaser (other than by merger, reorganization or the like). Any Purchaser may assign any or all of its rights under this Agreement to any Person to whom such Purchaser assigns or transfers any Securities, provided that such transferee agrees in writing to be bound, with respect to the transferred Securities, by the provisions of the Transaction Documents that apply to the "Purchasers."

21.1 No Third-Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person, except as otherwise set forth in Section 10.1.

22.1 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of the Transaction Documents shall be governed by and construed and enforced in accordance with the internal laws of the State of Colorado, without regard to the principles of conflicts of law thereof. Each party agrees that all legal proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement and any other Transaction Documents (whether brought against a party hereto or its respective affiliates, directors, officers, shareholders, partners, members, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the City of Denver, Colorado. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the City of Denver, Colorado for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Transaction Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of any such court, that such suit, action or proceeding is improper or is an inconvenient venue for such proceeding. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any other manner permitted by law. If either party shall commence an action, suit or proceeding to enforce any provisions of the Transaction Documents, then, in addition to the obligations of the Company under this Section, the prevailing party in such action, suit or proceeding shall be reimbursed by the other party for its reasonable attorneys' fees and other costs and expenses incurred with the investigation, preparation and prosecution of such action or proceeding.

23.1 Survival. The representations and warranties contained herein shall survive the Closing and the delivery of the Securities and terminate 30 days thereafter unless the representations and/or warranty relates to organization, authorization or the issuance of securities in which case such representations and warranties would terminate one year following Closing and the delivery of Securities.

24.1 Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their commercially reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

25.1 Replacement of Securities. If any certificate or instrument evidencing any Securities is mutilated, lost, stolen or destroyed, the Company shall issue or cause to be issued in exchange and substitution for and upon cancellation thereof (in the case of mutilation), or in lieu of and substitution therefor, a new certificate or instrument, but only upon receipt of evidence reasonably satisfactory to the Company of such loss, theft or destruction. The applicant for a new certificate or instrument under such circumstances shall also pay any reasonable third-party costs (including customary indemnity) associated with the issuance of such replacement Securities.

26.1 Remedies. In addition to being entitled to exercise all rights provided herein or granted by law, including recovery of damages, each of the Purchasers and the Company will be entitled to specific performance under the Transaction Documents. The parties agree that monetary damages may not be adequate compensation for any loss incurred by reason of any breach of obligations contained in the Transaction Documents and hereby agree to waive and not to assert in any action for specific performance of any such obligation the defense that a remedy at law would be adequate.

27.1 Independent Nature of Purchasers' Obligations and Rights. The obligations of each Purchaser under any Transaction Document are several and not joint with the obligations of any other Purchaser, and no Purchaser shall be responsible in any way for the performance or non-performance of the obligations of any other Purchaser under any Transaction Document. Nothing contained herein or in any other Transaction Document, and no action taken by any Purchaser pursuant hereto or thereto, shall be deemed to constitute the Purchasers as a partnership, an association, a joint venture or any other kind of entity, or create a presumption that the Purchasers are in any way acting in concert or as a group with respect to such obligations or the transactions contemplated by the Transaction Documents. Each Purchaser shall be entitled to independently protect and enforce its rights, including, without limitation, the rights arising out of this Agreement or out of the other Transaction Documents, and it shall not be necessary for any other Purchaser to be joined as an additional party in any proceeding for such purpose. Each Purchaser has been represented by its own separate legal counsel in its review and negotiation of the Transaction Documents. The Company has elected to provide all Purchasers with the same terms and Transaction Documents for the convenience of the Company and not because it was required or requested to do so by any of the Purchasers.

28.1 Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then such action may be taken or such right may be exercised on the next succeeding Business Day.

29.1 Construction. The parties agree that each of them and/or their respective counsel have reviewed and had an opportunity to revise the Transaction Documents and, therefore, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of the Transaction Documents or any amendments thereto. In addition, each and every reference to share prices and shares of Common Stock in any Transaction Document shall be subject to adjustment for reverse and forward stock splits, stock dividends, stock combinations and other similar transactions of the Common Stock that occur after the date of this Agreement. The word "including" shall be construed to include the words "without limitation." In this Agreement, unless the context otherwise requires, references to the singular shall include the plural and vice versa.

30.1 Waiver of Jury Trial. EACH PARTY HEREBY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, THE OTHER TRANSACTION DOCUMENTS, THE SECURITIES OR THE SUBJECT MATTER HEREOF OR THEREOF. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL-ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT AND THAT RELATE TO THE SUBJECT MATTER OF THIS TRANSACTION, INCLUDING, WITHOUT LIMITATION, CONTRACT CLAIMS, TORT CLAIMS (INCLUDING NEGLIGENCE), BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW AND STATUTORY CLAIMS. THIS SECTION HAS BEEN FULLY DISCUSSED BY EACH OF THE PARTIES HERETO AND THESE PROVISIONS WILL NOT BE SUBJECT TO ANY EXCEPTIONS. EACH PARTY HERETO HEREBY FURTHER WARRANTS AND REPRESENTS THAT SUCH PARTY HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL, AND THAT SUCH PARTY KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

31.1 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. ESIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes

32.1 Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Securities Purchase Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

SURNA INC.

By:
Name: Trent Doucet
Title: President and Chief Executive Officer

Address for Notice:

1780 55th St
Boulder, CO 80301

Fax: (303) 993-5271

With a copy to (which shall not constitute notice):

Duane Morris LLP
1540 Broadway
New York, NY 10036-4086
Attn: David N. Feldman, Esq.
Fax: (212) 202-6094

SIGNATURE PAGE FOR PURCHASER IS AT START OF DOCUMENT

1780 55th Street, Suite A
Boulder, CO 80301

SCHEDULES

Schedule A – Subsidiaries

Hydro Innovations, LLC, a Colorado limited liability company.

1780 55th Street, Suite A
Boulder, CO 80301

EXHIBIT B: FORM OF WARRANT

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT

SURNA INC.

Warrant Shares: _____ Initial Exercise Date: _____, 2017

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, _____ or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after six months after the date hereof (the "Initial Exercise Date") and on or prior to the close of business on ___ ___, 2020 (the "Termination Date") but not thereafter, to subscribe for and purchase from SURNA, INC., a Nevada corporation (the "Company"), up to _____ shares (as subject to adjustment hereunder, the "Warrant Shares") of Common Stock. The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 1 – Definitions

Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Securities Purchase Agreement (the "Purchase Agreement"), dated [_____], 2017, among the Company and the purchasers signatory thereto.

Section 2 – Exercise; Call and Redemption

a) Exercise of Warrant by Holder. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company (or such other office or agency of the Company as it may designate by notice in writing to the registered Holder at the address of the Holder appearing on the books of the Company) of a duly executed facsimile copy of the Notice of Exercise in the form annexed hereto and the Company shall have received payment of the aggregate Exercise Price of the shares thereby purchased by wire transfer or cashier's check drawn on a United States bank. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise form be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise within one (1) Business Day of receipt of such notice. The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.

b) Mandatory Call (Redemption) Provisions. Notwithstanding anything to the contrary contained in this Warrant, this Warrant is callable (redeemable) at the Company's option commencing six (6) months from the Initial Exercise Date, provided the closing price of the Common Stock is $0.42 (adjusted to reflect forward or reverse stock splits, recapitalizations, reorganizations or the like) or greater for five (5) consecutive Trading Days on the Trading Market (the "Call Condition"). Commencing at any time after the date on which the Call Condition is satisfied, the Company shall have the right, upon 30 days' notice to the Holder (the "Redemption Notice"), to redeem the number of Warrant Shares specified in the applicable Call Condition at a price of $0.01 per Warrant Share (the "Redemption Price"), on the date set forth in the Redemption Notice, but in no event earlier than 30 days following the date of the receipt by the Holder of the Redemption Notice (the "Redemption Date"). The Holder may exercise this Warrant at any time (in whole or in part) prior to the Redemption Date at the Exercise Price. Any portion of this Warrant that is subject to the applicable Call Condition which is not exercised by the Redemption Date shall no longer be exercisable and shall be returned to the Company (and, if not so returned, shall automatically be deemed canceled), and the Company, upon its receipt of the unexercised portion of this Warrant, shall issue therefore in full and complete satisfaction of its obligations under such called but unexercised portion of this Warrant to the Holder an amount equal to the number of shares of Common Stock called but remaining unexercised multiplied by the Redemption Price. The Redemption Price shall be mailed to such Holder at its address of record, and the Warrant shall be canceled.

c) Exercise Price. The exercise price per share of the Common Stock under this Warrant shall be $0.24, subject to adjustment hereunder (the "Exercise Price").

d) Mechanics of Exercise.

i. Delivery of Warrant Shares Upon Exercise. Warrant Shares purchased hereunder shall be transmitted by the Company or its transfer agent to the Holder the Holder in the Notice of Exercise within a commercially reasonable time, pursuant to SEC regulations, with the goal of accomplishing such action three (3) Trading Days after delivery to the Company of the Notice of Exercise (such date, the "Warrant Share Delivery Date"). The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date the Warrant has been exercised, with payment to the Company of the Exercise Price and all taxes required to be paid by the Holder, if any, pursuant to Section 2(d)(vi) prior to the issuance of such shares, having been paid.

ii. Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of a Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

iii. No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

iv. Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event that Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Warrant Shares as applicable.

v. Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 3 – Certain Adjustments

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re classification.

b) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction"), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, the number of shares of Common Stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction (without regard to any limitation in Section 2(e) on the exercise of this Warrant). For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction.

c) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

d) Notice to Holder.

i. Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly mail to the Holder a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be mailed to the Holder at its last address as it shall appear upon the Warrant Register of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of the Subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K, provided that the requirement in this sentence shall only apply if any of the Company's securities are listed or quoted for public trading. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 4 – Transfer of Warrant

a) Transferability. Subject to compliance with any applicable securities laws and the conditions set forth in Section 4(d) hereof and to the provisions of Section 4.1 of the Purchase Agreement, this Warrant and all rights hereunder are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within three (3) Trading Days of the date the Holder delivers an assignment form to the Company assigning this Warrant full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the Initial Exercise Date and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

d) Transfer Restrictions. If, at the time of the surrender of this Warrant in connection with any transfer of this Warrant, the transfer of this Warrant shall not be either (i) registered pursuant to an effective registration statement under the Securities Act and under applicable state securities or blue sky laws or (ii) eligible for resale pursuant to Rule 144, the Company may require, as a condition of allowing such transfer, that the Holder or transferee of this Warrant, as the case may be, comply with the provisions of Section 5.7 of the Purchase Agreement.

e) Representation by the Holder. The Holder, by the acceptance hereof, represents and warrants that it is acquiring this Warrant and, upon any exercise hereof, will acquire the Warrant Shares issuable upon such exercise, for its own account and not with a view to or for distributing or reselling such Warrant Shares or any part thereof in violation of the Securities Act or any applicable state securities law, except pursuant to sales registered or exempted under the Securities Act.

Section 5 – Miscellaneous

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i).

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares. The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of issuing the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the Common Stock may be traded. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and non-assessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Purchase Agreement.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, will have restrictions upon resale imposed by state and federal securities laws.

g) Non-waiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies, notwithstanding the fact that all rights hereunder terminate on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Purchase Agreement.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

SURNA INC.

By:_____
Trent Doucet
President and Chief Executive Officer

1780 55th Street, Suite A
Boulder, CO 80301

NOTICE OF EXERCISE

TO: **SURNA INC.**

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States.

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

_____
(please print name)

The Warrant Shares shall be delivered to the following Address:

_____

_____

_____

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

Holder's Signature: _____

Name of Investing Entity: _____

Signature of Authorized Signatory of Investing Entity: _____

Name of Authorized Signatory of Investing Entity: _____

Title of Authorized Signatory of Investing Entity: _____

Dated: _____/_____/20_____

1780 55th Street, Suite A
Boulder, CO 80301

EXHIBIT B

ASSIGNMENT FORM

TO: **SURNA INC.**

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to:

Name: _____
(Please Print)

Address: _____
(Please Print)

Dated: _____/_____/20_____

Holder's Signature: _____

Holder's Address: _____

_____

_____

1780 55th Street, Suite A
Boulder, CO 80301

EXHIBIT C

INVESTOR SUITABILITY REQUIREMENTS

1780 55th Street, Suite A
Boulder, CO 80301

EXHIBIT D

RISK FACTORS

BOARD OF DIRECTORS AGREEMENT

THIS BOARD OF DIRECTORS AGREEMENT ("Agreement") is made and entered into as of the 7th day of March 2017 by and Timothy J. Keating, an individual ("Keating" or "Director"), and Surna Inc., a Nevada corporation (the "Company"). Director and the Company may sometimes be referred to in this Agreement individually as a "party" or jointly as the "parties."

BACKGROUND:

The Company desires to appoint the Director as a member, chairman and lead independent director of the Board of Directors of the Company (the "Board") and the Director desires to serve and be appointed as a director, chairman and lead independent director of the Board (the "Appointment"), subject to the terms and conditions of this Agreement and the Company's By-Laws dated January 28, 2010 as amended on August 19, 2015 (the "By-Laws").

AGREEMENTS:

In consideration of the mutual promises of the parties stated in this Agreement and intending to be legally bound hereby, the parties agree us follows:

1. Scope of Services.

(a) Services. Director agrees to serve as a member, chairman and lead independent director of the Board for the term of this Agreement.

(b) Duties. Director shall perform such duties and responsibilities as are normally related to such position in accordance with the By-Laws and applicable law.

(c) Compensation. Director shall be paid for his services as detailed on Exhibit A.

2. Term. This Agreement shall commence on the date hereof and continue in full force thereafter for as long as Director is elected as a member of the Board in accordance with the By-Laws, all applicable federal and state laws, rules and regulations, and all rules and regulations on any national securities exchange on which any security of the Company is either listed or quoted.

3. General.

(a) Assignment. Director acknowledges that this is a personal service contract and shall not assign any rights or delegate any duties hereunder.

(b) Controlling Law. This Agreement will be governed by the internal laws of the State of Colorado without reference to choice of law principles.

(c) Amendment. Except as otherwise provided herein, this Agreement may be modified, amended, or any provision waived only by a written instrument signed by Director and the Company.

(d) Entire Agreement. This Agreement constitutes the entire agreement and set forth the entire understanding of the parties with respect to the performance of the Appointment and supersedes all prior agreements, covenants, arrangements, letters, communications, representations or warranties, whether oral or written.

(e) Severability. In the event any one or more of the provisions of this Agreement are unenforceable, the remainder of the Agreement will be unimpaired. Any unenforceable provision will be replaced by a mutually acceptable provision which comes closest to the intention of the parties at the time the original provision was agreed upon.

(f) Waiver. The failure of any party, at any time, to require strict performance by the other parties of any of the provisions hereof shall not waive or diminish a party's rights thereafter to demand strict compliance with these provisions or with any other provisions of this Agreement.

(g) Survival. Section 3 shall survive the termination of this Agreement and is binding on the heirs and permitted assigns of the parties.

IN WITNESS WHEREOF, the parties to this Agreement, each acting under due and proper authority, and each intending to be legally bound, have executed this Agreement on the date and year first above written.

COMPANY:

SURNA INC.

By: */s/ Trent Doucet*
Trent Doucet
President and Chief Executive Officer

DIRECTOR:

By: */s/ Timothy J. Keating*
Timothy J. Keating

[Signature Page to Board of Directors Agreement]

EXHIBIT A

COMPENSATION

1. The Company will issue Keating an equity retention payment of 1,400,000 shares of the Company's restricted common stock no later than March 17, 2017, (i) 700,000 shares of which will vest immediately and (ii) 700,000 shares of which will vest on March 1, 2018.

2. The Company will instruct its transfer agent to upload the initial 700,000 shares of common stock to DWAC or an alternative electronic transfer method, if permitted, for collection by Keating's nominated broker.

3. In accordance with Clause 4 of this Exhibit, the Company will pay Keating a monthly retainer of $6,250 for his ongoing director services. The retainer consists of two components: (i) $5,000 monthly Director's retainer, and (ii) $1,250 monthly retainer for additional service as the Chairman of the Board and Lead Independent Director. In the event that Keating is no longer retained as a Director or Chairman of the Board and Lead Independent Director, the retainer shall be adjusted on a pro-rata basis.

4. The Parties agree that 50% of Keating's director's retainer (or $2,500 per month) will be paid in the form of the Company's restricted common stock and will be paid quarterly, in arrears. The price used to determine the number of shares for each new calendar quarter shall be the volume-weighted average price ("VWAP") of the common stock for the 30 trading days from and including the last day of the preceding calendar quarter. For purposes hereof, VWAP shall mean, for any trading day, the volume-weighted average price, calculated by dividing the aggregate value of common stock traded on the trading market during regular hours (price per share multiplied by number of shares traded) by the total volume (number of shares) of common stock traded on the trading market (or such other national securities exchange or automated quotation system on which the common stock is listed) for such trading day, or if such volume-weighted average price is unavailable, the market value of one share of common stock on such trading day as determined by the Board of Directors in a commercially reasonable manner.

5. The Company will calculate the number of shares to be issued, submit its calculation to Keating for confirmation, and then upload the shares electronically, if possible, no later than the 10th calendar day of each new quarter.

6. The Company will make a $3,750 monthly payment in cash, in advance, to Keating by the 5th calendar day of each month. The monthly payment is the sum of the cash portion of the Director's retainer and the Chairman's retainer. The initial payment for March 2017 is due no later than March 17, 2017.

Exhibit 21.1

SIGNIFICANT SUBSIDIARIES OF THE REGISTRANT

The following are the significant subsidiaries of Surna Inc. as of December 31, 2016 and the states or jurisdictions in which they are organized. Indentation indicates the principal parent of each subsidiary. Except as otherwise specified, in each case Surna Inc. owns, directly or indirectly, 100% of the voting securities of each subsidiary.

Name	State or jurisdiction of Entity
Hydro Innovations, LLC	**Colorado**

Exhibit 31.1

Section 302 Certificate of Principal Executive Officer

I, Trent Doucet, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2016 of Surna Inc. (the "registrant");

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 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.

March 31, 2017

/s/ Trent Doucet

Trent Doucet
Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

Section 302 Certificate of Principal Financial and Accounting Officer

I, Dean S Skupen, certify that:

1. I have reviewed this Annual Report on Form 10-K for the fiscal year ended December 31, 2016 of Surna Inc. (the "registrant");

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 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.

March 31, 2017

/s/ Dean S Skupen

Dean S Skupen
Principal Financial and Accounting Officer

Exhibit 32.1

Section 1350 Certification

In connection with the Annual Report on Form 10-K of Surna Inc. (the "Company") for the fiscal year ended December 31, 2016 as filed with the Securities and Exchange Commission (the "Report"), I, Stephen Keen, Chief Executive Officer, and Dean Skupen, Principal Financial and Accounting Officer, of the Company, 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; and

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

March 31, 2017 *<u>/s/ Trent Doucet</u>*

Trent Doucet
Chief Executive Officer (Principal Executive Officer)

March 31, 2017 *<u>/s/ Dean S Skupen</u>*

Dean S Skupen
Principal Financial and Accounting Officer