



## Interim Management's Discussion and Analysis

Three and nine months ended September 30, 2018  
(expressed in U.S. dollars)

**AgJunction Inc.**  
**Management's Discussion and Analysis**  
**Three and nine months ended September 30, 2018**

The following discussion and analysis is effective as of November 6, 2018 and should be read together with our unaudited consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2018. Additional information related to AgJunction Inc., including the Company's Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at [www.sedar.com](http://www.sedar.com). All amounts stated in this Management Discussion and Analysis ("MD&A") are in US dollars unless otherwise stated.

**Overview**

All references throughout this document to "we", "our", "us", "Company" or "management" refer to AgJunction Inc. and its subsidiaries, unless the context requires otherwise.

AgJunction is a public company, listed on the Toronto Stock Exchange (TSX) under the symbol "AJX" and is a global leader of advanced guidance and autosteering solutions for precision agriculture applications. Its technologies are critical components in over 30 of the world's leading precision Ag manufacturers and solution providers and it holds over 130 fundamental steering and machine control patents. AgJunction markets its solutions under leading brand names including Novariant and Satloc® and is committed to advance its vision by bringing affordable hands-free farming to every farm, regardless of terrain or size. AgJunction is headquartered in Scottsdale, Arizona, with facilities in Silicon Valley, and Australia. For more information, please go to [www.agjunction.com](http://www.agjunction.com).

**Economic and Market Trends**

*Agriculture Markets*

In October 2018, the Conveyor Equipment Manufacturers Association (CEMA), a European network of national Ag machinery associations and their member companies, released data which reported a slight decline in sales during the first quarter of 2018, while demand in the second quarter of 2018 remained stable in comparison with the second quarter of 2017.

The 2018 Farm Sector Income Forecast prepared by the US Department of Agriculture on July 17, 2018 ("USDA") forecasted a decrease in total farm cash receipts of \$2.0 billion, or -0.5% in 2018 versus 2017 resulting in a forecasted decrease in net farm income of \$4.3 billion or -6.7% which was also impacted by a projected decrease in Federal Government program payments of \$2.1 billion or -18.6%. Farm sector equity and assets are forecast to increase in 2018 by 1.6% each including a 2.7% increase in machinery and motor vehicles. According to the Global Smart Tractor Market – Forecasts from 2018-2023, the market is expected to grow at a CAGR of 25.67%, to reach \$8.7 billion by 2023.

A July 2018 report from Association of Equipment Manufacturers (AEM) states, "Both U.S. and Canadian retail sales of ag tractors and self-propelled combines saw growth in June, compared to this time a year ago". Mid-year reports show retail sales in all categories of farm tractors in the U.S. and Canada rose 12% and 10%, respectively, year over year. The Senior Vice President of AEM states, "We view 2018 as a rebuilding year for agriculture; we've experienced a steadily improving economy, tax reform provides incentives and machines need to be replaced".

According to a February 2018 report from CEMA the European tractor market grew 12.8% in 2017 when compared to 2016. In 2018, the market may grow further, an expectation based on the CEMA Barometer and the economic experts of the CEMA member associations. Economic experts from France, Germany, Belgium, Italy and the UK all expect a small growth of the agricultural machinery market for 2018 in their country.

In June 2018, tariffs implemented by the United States on imported steel and aluminum went into effect. While tariffs continue to cause a reactionary increase on U.S. steel and aluminum pricing, we believe it will have little or no impact on our revenue or results of operations. We have seen some tariffs on precision steer product we purchase from China, but most of our production has been moved to Mexico so the impact is expected to be minimal.

Management views the 2018 fundamentals of its global agricultural markets to be neutral to slightly up with expectations of new machine sales to remain flat to slightly up and existing field equipment sales to be slightly up. The outlook for 2019 and beyond is positive, driven by the following key factors: population growth, limited arable land, the need for increased output, and a relatively low global penetration of precision agriculture technologies such as Global Navigation Satellite Systems (GNSS) and autosteering.

## Summary of Quarterly Results

	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep
(000's)	2016	2017	2017	2017	2017	2018	2018	2018
Revenue	\$8,224	\$14,573	\$13,341	\$8,978	\$9,889	\$15,774	\$13,776	\$17,862
Gross margin	2,884	6,827	5,515	3,229	3,850	6,781	5,418	6,323
	35%	47%	41%	36%	39%	43%	39%	35%
Expenses:								
Research and development	2,003	2,083	1,861	1,752	2,514	2,979	3,008	1,343
Sales and marketing	1,641	1,903	1,960	2,117	1,796	2,165	1,984	1,857
General and administrative	2,055	2,226	2,218	2,418	2,529	2,679	2,757	2,471
	5,699	6,212	6,039	6,287	6,839	7,823	7,749	5,671
Operating income (loss)	(2,815)	615	(524)	(3,058)	(2,989)	(1,042)	(2,331)	652
Foreign exchange (gain) loss	(3)	(4)	(22)	43	(13)	(49)	28	(35)
Interest and other (income) loss	-	1	1	(20)	-	(5)	(5)	(20)
Loss (gain) on disposal of property, plant and equipment	86	-	18	1	-	(4)	(9)	-
(Gain) loss on sale of division	-	-	-	-	-	-	-	(943)
Other Income	-	(3,000)	-	-	-	-	-	-
	83	(3,003)	(3)	24	(13)	(58)	14	(998)
Net income (loss) before income tax	(2,898)	3,618	(521)	(3,082)	(2,976)	(984)	(2,345)	1,650
Income tax	-	-	19	-	(309)	-	-	-
Net income (loss)	(2,898)	3,618	(540)	(3,082)	(2,667)	(984)	(2,345)	1,650
Earnings (loss) per common share:								
Basic and diluted	(\$0.02)	\$0.03	\$0.00	(\$0.02)	(\$0.02)	(\$0.01)	(\$0.02)	\$0.01
Weighted Average Diluted Shares	123,773	124,307	128,268	124,475	121,157	118,338	126,287	125,684

**Revenue by geographic region on a quarterly basis are as follows:**

**For the Quarter Ended**

(000's)	31-Dec 2016	31-Mar 2017	30-Jun 2017	30-Sep 2017	31-Dec 2017	31-Mar 2018	30-Jun 2018	30-Sep 2018
Americas	\$4,677	\$8,254	\$7,085	\$5,549	\$5,540	\$8,481	\$6,761	\$3,923
APAC	546	1,026	822	222	402	741	178	452
EMEA	3,001	5,293	5,434	3,207	3,947	6,552	6,837	13,487
	\$8,224	\$14,573	\$13,341	\$8,978	\$9,889	\$15,774	\$13,776	\$17,862

Quarterly results have varied during the past eight quarters due, in part, to the following factors:

1. A large component of the Company's revenue is derived from North American and EMEA agriculture markets which are subject to the seasonality of the agricultural buying season. Normally this leads to the first half of the year being the strongest and the second half being the weakest, however the bulk purchase order deliveries are expected to make the revenue in the second half of 2018 higher than the first half. Initiatives to mitigate the seasonality include revenue efforts in the Southern Hemisphere which is generally counter-seasonal to the Northern Hemisphere agricultural seasons and strategies focused on increasing sources of recurring revenue.
2. The adoption of advanced technology as it relates to precision farming is transitioning from historically being an aftermarket business to an original equipment manufacturer (OEM) business. The outlook for the Company's products in the OEM channel remains uncertain based on the speed with which each region will adopt this model.

**Quarter Ended September 30, 2018 versus Quarter Ended September 30, 2017**

**Management Summary**

On March 13, 2018 the Company announced it has entered into a bulk purchase order with a customer to supply its steering solutions products to the customer for an aggregate purchase price of approximately \$55 million. Deliveries and payments under the purchase order began July 1, 2018 and will continue through June 30, 2019.

In the third quarter of 2018 revenues were \$17.9 million, a 99% increase compared to \$9.0 million in the same quarter a year ago. This increase is driven by \$13.4 million in shipments fulfilled under the bulk purchase order which was announced in March 2018.

**Revenues**

For the quarter ended September 30, 2018, revenues were \$17.9 million representing an increase of 99% from \$9.0 million in the same period of 2017.

(000's)	2018	2017	Change
Agriculture	\$ 17,862	\$ 8,978	99%

## Revenue by geographic region:

(000's)	2018	2017	Change
Americas	\$ 3,923	\$ 5,549	(29%)
APAC	452	222	104%
EMEA	13,487	3,207	321%
	\$ 17,862	\$ 8,978	99%

In the third quarter of 2018, revenue in the Americas decreased by \$1.6 million or 29%, mostly due to the Outback business resulting in a year-over-year decrease of \$0.7 million. Revenue in APAC saw an increase of \$0.2 million due to increased demand in China. Revenue in the EMEA region increased \$10.3 million largely due to increased demand in Germany of \$10.6 million, offset by a decrease in France of \$0.3 million.

Revenue in the Americas represented 22% of total revenues in the third quarter of 2018 compared to 62% in the third quarter of 2017. APAC revenue represented 2% of total revenues in the third quarter of 2018 and 2017. EMEA revenue represented 76% of total revenues for the period, up from 36% in the same period in 2017.

### **Gross Margins**

Gross margins were \$6.3 million for the third quarter of 2018 compared to \$3.2 million for 2017. Gross margins, as a percentage of revenue, were 35% in 2018 compared to 36% in 2017. The one percent decrease in gross margin over the same quarter of the prior year is attributed to increase in cost of the product mix sold reduced by favorability from the absorption of compensation costs allocated to Cost of revenue and the reduction of warranty and obsolescence reserves.

### **Expenses**

Total operating expenses were \$5.7 million and \$6.3 million for the third quarter of 2018 and 2017, respectively, a decrease of 10%.

Research and development expenditures of \$1.3 million decreased from \$1.8 million in 2017 representing a decrease of \$0.5 million or 28%. The expense decrease of \$0.5 million is driven by capitalization of development costs in the third quarter of \$1.0 million offset by an increase in research and development costs related to the Company investing in improving and developing new products.

Sales and marketing expenses for the period were \$1.9 million in 2018 decreased from \$2.1 million in 2017 representing a decrease of \$0.2 million or 10%. This decrease is primarily due to a decrease in employee compensation costs.

General and administrative expenses for the third quarter of 2018 were \$2.5 million compared to \$2.4 million in 2017 representing a slight increase of \$0.1 million or 4%.

### **Interest, Foreign Exchange, and Other Income**

In the third quarter of 2018 and 2017, the Company recorded net interest and other income of \$20. The Company earns interest income on certain cash balances which is offset by interest paid.

During the third quarter of 2018, the Company realized a foreign exchange gain of \$35 compared to a loss of \$43 during the same quarter in 2017. Foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar working capital.

Additionally, during the third quarter of 2018, the Company realized a gain on disposal of its Outback Guidance division of \$0.9 million.

No other income was recorded in the second quarter of 2018 or 2017.

### ***Disposal of Property, Plant and Equipment***

The Company recognized a loss on the disposal of property, plant and equipment in the third quarter of 2017 totaling \$1.

### ***Income Taxes***

The Company did not recognize any income tax benefit or expense in the third quarter of 2018 or 2017.

### ***Net Income (Loss)***

In the third quarter of 2018, the Company realized net income of \$1.6 million or \$0.01 per share (basic and diluted), compared to a net loss of \$3.1 million or (\$0.02) per share (basic and diluted) in the third quarter of 2017.

### **Nine Months Ended September 30, 2018 compared to September 30, 2017**

#### ***Revenues***

Revenues during the nine months ended September 30, 2018 and 2017 were as follows:

	<b>YTD 2018</b>	<b>YTD 2017</b>	<b>Change</b>
Agriculture	\$ 47,412	\$ 36,892	29%

Revenue by region for the nine months ended September 30, of 2018 and 2017 are as follows:

	<b>YTD 2018</b>	<b>YTD 2017</b>	<b>Change</b>
Americas	\$ 19,165	\$ 20,888	(8%)
APAC	1,371	2,069	(34%)
EMEA	26,876	13,935	93%
	\$ 47,412	\$ 36,892	29%

Americas revenue for the nine months ended September 30, 2018 was down \$1.7 million or 8% from the same period of 2017. The decrease in revenue for the APAC region of \$0.7 million or 34% from the same period in the previous year is due to decreased demand in China and Australia of \$0.6 and \$0.7 million, respectively, offset by increased revenue of \$0.2 million in Japan. Revenue in the EMEA region increased \$12.9 million due largely to increased demand in France and Germany of \$1.2 and \$8.1 million, respectively.

#### ***Gross Margins***

Gross margins for the nine months ended September 30, 2018 were \$18.5 million (39%) compared to \$15.6 million (42%) in the same period of 2017. The 3% decrease in gross margin over the same nine months of the prior year is attributed to a 5% increase in cost of the product mix sold offset by favorability from the absorption of compensation costs allocated to Cost of revenue and the reduction of obsolescence reserve.

## ***Expenses***

Total operating expenses were \$21.2 million and \$18.5 million for the nine months ended September 30, 2018 and 2017, respectively, an increase of 15%.

Research and development expenses of \$7.3 million increased from \$5.7 million in 2017 representing an increase of \$1.6 million or 29%. The expense increase is primarily due to higher research and development costs related to the Company investing in improving and developing new products. The company continues to invest in development of new products and to capture market share as the agricultural industry recovers

Sales and marketing expenses for the nine month periods ending 2018 and 2017 were \$6.0 million.

General and administrative expenses for the nine months ended September 30, 2018 were \$7.9 million compared to \$6.9 million in 2017 representing a slight increase of \$1.0 million or 15%. This \$1.0 million increase is primarily related to increased legal fees related to litigations.

## ***Interest, Foreign Exchange, and Other Income***

Interest and other income in the nine months ended September 30, 2018 was \$30 versus \$18 in the same period of 2017. For the nine months ended September 30, 2017, the company recorded \$3.0 million of other income associated with its entry into a strategic agreement with Hemisphere GNSS, Inc. (Hemisphere), a world-class provider of global navigation satellite systems (GNSS) technology, whereby the Company received a one-time payment of \$3.0 million in exchange for releasing Hemisphere from a license restriction that prevented them from selling their GNSS products directly into the global agricultural market.

The Company reported a foreign exchange gain in the nine month period of 2018 of \$56, compared to a loss of \$17 in the same period of 2017. Foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar working capital.

Additionally, during the third quarter of 2018, the Company realized a gain on disposal of its Outback Guidance division of \$0.9 million.

## ***Disposal of Property, Plant and Equipment***

The Company recognized a gain on the disposal of property, plant and equipment during the nine months ended September 30, 2018 totaling \$13 compared to a loss of \$19 in the same period of 2017.

## ***Income Taxes***

No income tax expense was recognized for the nine months ended September 30, 2018 compared to \$19 for the same period in 2017.

## ***Net Income (Loss)***

In the nine months of 2018, the Company incurred a net loss of \$1.7 million or (\$0.01) per share (basic and diluted), compared to a net loss of \$4 or \$0.00 per share (basic and diluted) in the first nine months of 2017.

## ***Liquidity and Capital Resources***

### ***Working Capital***

The Company held cash of \$19.5 million at September 30, 2018 compared to \$13.9 million at December 31, 2017. Working capital was \$22.9 million, an increase from December 31, 2017 working capital of \$20.3 million. The primary items impacting working capital during the nine-month period were:

- Cash generated from continuing operations was \$1.0 million in the nine months ended September 30, 2018 compared to \$5.2 million in the nine months ended June 30, 2017.



- Accounts receivable at September 30, 2018 were \$7.6 million compared to \$4.2 million at December 31, 2017, due to higher revenue.
- Inventories consist of components, work in process and finished goods related to the products sold by the Company. Inventory was \$5.8 million at September 30, 2018 compared to \$7.6 million at December 31, 2017. Note that Outback inventory at the time the business was sold was \$3.0 million, driving most of the decrease, which was partially offset by the increase in inventory to support the bulk purchase order.
- Accounts payable and accrued expenses at September 30, 2018 were \$9.6 million versus \$5.6 million at December 31, 2017, with \$3,3 million related to payables to the bulk purchase order.
- Deferred revenue at September 30, 2018 of \$2.5 million compared to \$0.3 million at December 31, 2017. These figures include deferred royalty revenue of \$2.4 million and \$0.0 million respectively

The Company obtained an operating line of credit with its bank for \$3.0 million in February 2014. As of September 30, 2018, the full line of credit was available.

### **Critical Accounting Policies and Estimates**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on Management's historical experience and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and 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 these estimates.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.
2. Inventories are carried at the lower of cost and net realizable value. Provisions for excess or obsolete inventory are recorded based on Management's assessment of the estimated net realizable value of component, work in process, and finished goods inventory.
3. The Company performs the required test for goodwill impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. In performing the required test, Management determines the recoverable amount, which is the greater of the fair value less cost to sell and value in use. An impairment loss would be measured as the difference between the carrying amount of the goodwill and its recoverable amount. Fair value less cost to sell takes into consideration the market capitalization of the Company as there is only one cash generating unit, relevant multiples, and peer transactions. Value in use is determined using a detailed discounted cash flow analysis using management's estimates.
4. The Company evaluates its deferred tax assets and recognizes deferred tax assets to the extent there is available taxable income. At September 30, 2018, the Company did not recognize any deferred tax assets on the Consolidated Statement of Financial Position.
5. The Company accrues reserves for product warranty expenses as it relates to the repair or replacement of defective products sold in the current period. The warranty reserve is based on historical information of warranty claims compared to revenue. Any expenses directly relating to warranty claims are expected to offset the provision in period.

### **Internal Controls over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing disclosure controls and internal controls over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company is currently under the Internal Control - Integrated Framework: 2013 released by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, Management has conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2017. Based on its evaluation, the certifying officers concluded that our internal controls over financial reporting were effective as of that date.

### **Forward-Looking Information**

The information in the Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A and except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- financial results;
- new and emerging markets;
- impact of market conditions;
- forecast net farm income;
- changes in foreign currency rates;
- losses available to reduce future taxable income;
- customer adoption of technology and products;
- processes implemented to mitigate weaknesses in internal controls;
- implementation of International Financial Reporting Standards;
- technological developments;
- expectations regarding the ability to raise capital; and
- research and capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- competition;
- departure of key personnel or consultants;
- inability to introduce new technology and new products in a timely manner;
- changes in the GPS network and other systems outside of our control;
- misappropriation of proprietary information;
- legal claims for the infringement of intellectual property and other claims;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- uncertainties in the global economy;
- negative conditions in general economic and financial markets;
- reliance on key suppliers;
- availability of key supplies and components;
- dependence on major customers;

- losses from credit exposures;
- product liability;
- damage or loss of use of physical facilities;
- stock market volatility and market valuations;
- conflicts of interest;
- changes in income tax laws and other government regulations; and
- the other factors discussed under "Business and Market Risks".

With respect to forward-looking statements contained in this document, we have made assumptions regarding, among other things: future technological developments; availability of key supplies, components, services, networks and developments; future exchange rates; future operating costs; that there are no unforeseen events preventing the performance of contracts; the cost of expanding AgJunction's product lines; the impact of increasing competition; the nature and outcome of legal proceedings; the continuity of existing business relationships; conditions in general economic and financial markets; and our ability to obtain financing on acceptable terms.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders and readers with a more complete perspective on the Company's current and future operations and such information may not be appropriate for other purposes. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Condensed Consolidated Interim Financial Statements of



Three and nine months ended September 30, 2018

(Unaudited - expressed in U.S. dollars)

# AgJunction Inc.

Condensed Consolidated Statements of Financial Position  
(Expressed in U.S. dollars)

(000's)	September 30, 2018 (Unaudited)	December 31, 2017*
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 19,451	\$ 13,893
Accounts receivable, net of bad debt provisions of \$35 and \$228, respectively	7,552	4,185
Inventories	5,805	7,627
Prepaid expenses and deposits	1,026	990
	<u>33,834</u>	<u>26,695</u>
Contract assets	219	-
Property, plant and equipment, net	1,349	2,899
Intangible assets, net	9,258	9,856
Goodwill	143	143
	<u>\$ 44,803</u>	<u>\$ 39,593</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 9,632	\$ 5,649
Warranty Provisions (note 5)	709	629
Current portion of contract liabilities, net**	153	-
Current portion of deferred revenue	448	149
	<u>10,942</u>	<u>6,427</u>
Contract liabilities, net less current portion**	106	-
Deferred revenue, less current portion	2,016	100
Total liabilities	<u>13,064</u>	<u>6,527</u>
Shareholders' equity:		
Share capital (note 3)	148,496	146,896
Equity reserve	4,810	5,805
Accumulated deficit	(121,567)	(119,635)
	<u>31,739</u>	<u>33,066</u>
	<u>\$ 44,803</u>	<u>\$ 39,593</u>

\* The December 31, 2017 balance sheet figures have been derived from the audited consolidated financial statements as of that date.

\*\* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2.

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

## Condensed Consolidated Statements of Profit or Loss

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. dollars)

(000s)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Revenue (note 4)	\$ 17,862	\$ 8,978	\$ 47,412	\$ 36,892
Cost of sales	11,539	5,749	28,889	21,321
Gross profit	6,323	3,229	18,523	15,571
Expenses:				
Research and development	1,343	1,752	7,331	5,696
Sales and marketing	1,857	2,117	6,006	5,980
General and administrative	2,471	2,418	7,907	6,862
	5,671	6,287	21,244	18,538
Operating (loss) income	652	(3,057)	(2,721)	(2,967)
Foreign exchange loss (gain), net	(35)	43	(56)	17
Interest and other (income) expense	(20)	(20)	(30)	(18)
Other income (note 7)	—	—	—	(3,000)
(Gain) loss on disposal of property, plant and equipment	—	1	(13)	19
(Gain) on sale of division (note 9)	(943)	—	(943)	—
	(998)	24	(1,042)	(2,982)
Net (loss) income before income tax	1,650	(3,082)	(1,679)	15
Income tax	—	—	—	19
Net (loss) income	\$ 1,650	\$ (3,082)	\$ (1,679)	\$ (4)
Earnings per share:				
Basic and diluted (loss) income per share	\$ 0.01	\$ (0.02)	\$ (0.01)	\$ 0.00

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

## Condensed Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars)

(000s)	Share capital	Equity reserve	Deficit	Total equity	Number of shares
Balance at December 31, 2016	\$ 148,391	\$ 5,265	\$ (116,964)	\$ 36,692	124,074
Net loss	-	-	(4)	(4)	-
Purchase and cancellation of common shares	(1,767)	-	-	(1,767)	(7,853)
Share-based payment transactions (note 3(c))	-	562	-	562	-
Issue of restricted share awards, net (note 3(c))	262	(262)	-	-	639
Balance at September 30, 2017 (unaudited)	\$ 146,886	\$ 5,565	\$ (116,968)	\$ 35,483	116,860
Balance at December 31, 2017	\$ 146,896	\$ 5,805	\$ (119,635)	\$ 33,066	116,879
Impact of change in accounting policy*	-	-	(253)	(253)	-
Balance at January 1, 2018 (unaudited)	\$ 146,896	\$ 5,805	\$ (119,888)	\$ 32,813	116,879
Net loss	-	-	(1,679)	(1,679)	-
Share-based payment transactions (note 3(c))	-	605	-	605	-
Issue of restricted share awards, net (note 3(c))	1,600	(1,600)	-	-	2,238
Balance at September 30, 2018 (unaudited)	\$ 148,496	\$ 4,810	\$ (121,567)	\$ 31,739	119,117

\* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2.

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

## Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2018 and 2017

(Unaudited - expressed in U.S. dollars)

(000s)	2018	2017
Cash flows provided by operating activities:		
Net (loss)	\$ (1,679)	\$ (4)
Items not involving cash:		
Depreciation	498	507
Amortization	946	949
Share-based payment transactions (note 3(c))	605	562
Allowance loss (gain) on trade receivables	(193)	171
Write (up) down of inventory to net realizable value	(83)	510
(Gain) loss on disposal of property, plant and equipment	(13)	19
(Gain) on sale of division	(943)	—
Change in non-cash operating working capital:		
Accounts receivable	(3,174)	73
Inventories	(1,222)	1,795
Contract assets*	(30)	—
Prepaid expenses and deposits	(67)	176
Accounts payable and accrued expenses	4,016	476
Warranty Provisions (note 5)	217	75
Contract liabilities*	(183)	—
Deferred revenue	2,381	(79)
Cash flows provided by operating activities	1,076	5,230
Cash flows (used in) financing activities:		
Purchase and cancellation of common shares	—	(1,767)
Cash flows (used in) financing activities	—	(1,767)
Cash flows provided by (used in) investing activities:		
Purchase of property, plant and equipment	(585)	(285)
Intangible asset addition	(1,040)	—
Proceeds from the sales of property, plant and equipment	107	1
Proceeds from the sale of division	6,000	—
Cash flows provided by (used in) investing activities	4,482	(284)
Increase in cash position	5,558	3,179
Cash and cash equivalents, beginning of year	13,893	12,863
Cash and cash equivalents, end of period	\$ 19,451	\$ 16,042

\* The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2.

See accompanying notes to condensed consolidated interim financial statements.



# AgJunction Inc.

## Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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### 1. Reporting entity:

AgJunction Inc. (the "Company") is a publicly traded company listed on the Toronto Stock Exchange under the ticker symbol "AJX", domiciled in Canada with its primary office located at 9150 E. Del Camino Drive, Suite 109, Scottsdale, Arizona. The condensed consolidated interim financial statements of the Company as of September 30, 2018, and for the three and nine months ended September 30, 2018 and 2017 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company"). AgJunction Inc. is a leading provider of innovative hardware and software solutions for precision agriculture worldwide. The Company holds fundamental steering and machine control patents and markets its products and services under leading brand names and Satloc®. Its autosteering and machine control solutions are critical components in over 30 of the world's leading precision Ag manufacturers and solution providers. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 6, 2018.

### 2. Basis of preparation and presentation:

- (a) These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34, *Interim Financial Reporting*.

These interim financial statements follow the same accounting policies and methods of application as set out in the consolidated financial statements for the year ended December 31, 2017, except as noted in 2(b) for adoption of new accounting pronouncements. These statements do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the consolidated financial statements for the year ended December 31, 2017.

- (b) Recently adopted accounting pronouncements

#### IFRS 9, *Financial Instruments*

In July 2014, the IASB issued IFRS 9, *Financial Instruments*, which clarified how entities are to classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. The standard was adopted as of January 1, 2018 and had no impact on the financial results of the Company.

#### Amendments to IFRS 2, *Share-based Payment*

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, which clarified the classification and measurement of share-based payment transactions. The amended standard was adopted as of January 1, 2018 and had negligible impact on the financial results of the Company.

#### IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 2

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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## 2. Basis of preparation and presentation (continued):

In December 2016, the IASB published IFRIC 22, *Foreign Currency Transactions and Advance Consideration* which was developed by the IFRS Interpretations Committee to clarify the accounting for transactions which include receipt or payment of advance consideration in a foreign currency. The interpretation was adopted as of January 1, 2018 and had negligible impact on the financial results of the Company.

IFRS 15, *Revenue from Contracts with Customers*:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard related to revenue recognition which was effective January 1, 2018. Under the standard, revenue is recognized when the Company satisfies its performance obligations. Performance obligations are satisfied when a customer obtains control of promised goods or services in an amount that reflects the consideration the entity expects to be entitled to in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Company adopted the new standard effective January 1, 2018. The cumulative effect of initially implementing IFRS 15 under the modified retrospective method as of that date resulted in an adjustment to retained earnings of \$253, and adjustment to contract assets of \$189 and an adjustment to contract liabilities of (\$442). The most significant impact of implementing IFRS 15 relates to our accounting for non-recurring engineering ("NRE") agreements, which had previously not met the criteria for revenue recognition under past standards.

These NRE agreements fall into one of three categories, software upgrades, equipment prototype design ("hardware"), and feature code development. Revenue generated from software upgrade NRE is recognized upon delivery of the software upgrade to the customer. Revenue generated from equipment prototype design and feature code development NRE is initially deferred and later recognized on a pro-rata basis as new equipment or feature codes connected with those NRE agreements are purchased.

Costs related to NRE agreements under all three categories are capitalized as a contract asset as the expenses are incurred, not to exceed contractual NRE billings. Capitalized expenses include amounts paid to external vendors as well as internal labor costs. Contract assets related to software upgrades are fully expensed upon delivery of the software upgrade to customers. Contract assets related to equipment prototype design and feature code development are expensed on a pro-rata basis as new equipment or feature codes connected with those NRE agreements are purchased. This requires an estimate of future sales of related hardware and feature codes. Capitalized expenses related to these NRE agreements are represented as net contract assets on the Condensed Consolidated Statements of Financial Position and total \$219 as of September 30, 2018. These net contract assets relate solely to software NRE agreements.

Under the standard, sales-based or usage-based royalty revenue is recognized when the Company satisfies its performance obligations over the contractual term. In addition, the

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 3

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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## 2. Basis of preparation and presentation (continued):

standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Royalty revenue is located within the Revenue line of the Condensed Consolidated Statements of Profit or Loss. Royalty revenue recognized in the period ending September 30, 2018 totals \$93. Deferred royalty revenue is represented as net contract liabilities on the Condensed Consolidated Statements of Financial Position and total \$2,464 as of September 30, 2018.

### (c) New standards and interpretations not yet adopted:

In January 2016, the IASB issued IFRS 16, *Leases*, which requires major revisions in the way lessees currently account for leases under IAS 17, *Leases*. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied. The standard allows for full retrospective or modified retrospective implementation along with various options, exemptions and practical expedients that can be elected at implementation. The company is currently evaluating the impact of adopting this standard, however we do not expect the adoption to have a significant impact on the Company's financial results.

In June 2017, the IASB published IFRIC 23, *Uncertainty over Income Tax Treatments* which was developed by the IFRS Interpretations Committee to enhance transparency and to clarify the accounting for income tax treatments that have yet to be accepted by tax authorities. The interpretation is effective for annual periods beginning on or after January 1, 2019, with early application permitted. This standard is not expected to have a significant impact on the Company's financial results.

### (d) Financial instruments

The Company classifies its financial instruments measured at fair value using a fair value hierarchy defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of September 30, 2018, and December 31, 2017, the carrying values of all financial assets and liabilities approximate fair value.

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 4

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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### 3. Share capital:

(a) Authorized:

An unlimited number of common shares and an unlimited number of both first and second preferred shares, issuable in series, are authorized.

(b) Issued:

Issued share capital consists of 119,117 common shares at \$148,496.

(c) During the nine months ended September 30, 2018, the Company recorded \$605 (2017 – \$562) share based compensation expense relating to options and restricted share awards.

Change in the number of options, with their weighted average exercise prices are summarized below:

Three months ended:

<i>(Share price in CAD)</i>	<u>September 30, 2018</u>		<u>September 30, 2017</u>	
	Number Options	Weighted average exercise price	Number options	Weighted average exercise price
Total options outstanding, beginning of period	7,359	\$ 0.62	7,795	\$ 0.65
Granted	–	–	1,097	0.51
Exercised	–	–	–	–
Expired or cancelled	(16)	1.12	(1,359)	0.65
Share options outstanding, end of period	7,343	\$ 0.62	7,533	\$ 0.63

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 5

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

## 3. Share capital (continued):

Nine months ended:

<i>(Share price in CAD)</i>	September 30, 2018		September 30, 2017	
	Number Options	Weighted average exercise price	Number options	Weighted average exercise price
Total options outstanding, beginning of period	7,409	\$ 0.62	7,136	\$ 0.66
Granted	–	–	1,847	0.50
Exercised	–	–	–	–
Expired or cancelled	(66)	0.94	(1,450)	0.66
Share options outstanding, end of period	7,343	\$ 0.62	7,533	\$ 0.63

Range of exercise prices outstanding	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2018	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at September 30, 2018	Weighted average exercise price
\$0.50 – 1.00	7,313	31	\$ 0.61	3,540	\$ 0.62
\$1.01 – 1.12	30	3	\$ 1.12	29	\$ 1.12
\$0.50 – 1.12	7,343	31	\$ 0.61	3,569	\$ 0.62

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 6

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

### 3. Share capital (continued):

Change in the number of restricted share awards (RSAs), with their weighted average grant prices are summarized below:

Three months ended:

<i>(Share price in CAD)</i>	September 30, 2018		September 30, 2017	
	Number RSAs	Weighted average grant price	Number RSAs	Weighted average grant price
Total RSAs outstanding, beginning of period	3,962	\$ 0.75	2,125	\$ 0.54
Granted	–	–	267	0.50
Vested	(168)	0.74	(52)	0.51
Expired or cancelled	(146)	0.85	(50)	0.57
RSAs outstanding, end of period	3,648	\$ 0.76	2,290	\$ 0.53

Nine months ended:

<i>(Share price in CAD)</i>	September 30, 2018		September 30, 2017	
	Number RSAs	Weighted average grant price	Number RSAs	Weighted average grant price
Total RSAs outstanding, beginning of period	2,280	\$ 0.53	4,132	\$ 0.60
Granted	2,538	0.87	757	0.52
Vested	(870)	0.53	(2,549)	0.64
Expired or cancelled	(300)	0.69	(50)	0.57
RSAs outstanding, end of period	3,648	\$ 0.76	2,290	\$ 0.53

The restricted share awards outstanding as of September 30, 2018 have a weighted average remaining vesting life of 30 (2017 – 28) months.

- (d) The grant date fair value of share options granted is estimated by using the Black-Scholes call option pricing model. Share options issued in the first three quarters of 2018 were nil.

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 7

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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### 3. Share capital (continued):

The following assumptions were used in determining the fair value of the January 2017 share option issuances: Company share price at issuance; share option exercise price; weighted average volatility of 56%; interest rate of 0.76%; and weighted average expected life of 4.0 years. The following assumptions were used in determining the fair value of the June 2017 share option issuances: Company share price at issuance; share option exercise price; weighted average volatility of 54%; interest rate of 0.85%; and weighted average expected life of 4.0 years.

The grant date fair value of RSAs granted is estimated by using the Black-Scholes put option pricing model. The following assumptions were used in determining the fair value of the March 2018 RSA grants: Company share price at issuance; weighted average volatility of 57%; interest rate of 1.74%; and weighted average expected life of 3.0 years. Two RSA issuances with differing vesting periods were completed in April 2018. Accordingly, differing assumptions were used in the fair value calculations. The following assumptions were used in the first issuance: Company share price at issuance; weighted average volatility of 51%; interest rate of 1.79%; and weighted average expected life of 1.0 year. The following assumptions were used in the second issuance: Company share price at issuance; weighted average volatility of 56%; interest rate of 1.79%; and weighted average expected life of 3.0 years.

The following assumptions were used in determining the fair value of the January 2017 RSA grants: Company share price at issuance; weighted average volatility of 64%; interest rate of 0.76%; and weighted average expected life of 3.0 years. The following assumptions were used in determining the fair value of the June 2017 grants: Company share price at issuance; weighted average volatility of 57%; interest rate of 0.69%; and weighted average expected life of 3.0 years.

- (e) On June 27, 2017, the Company repurchased and returned to treasury for cancellation 7,852,989 of its common shares under an arm's length private transaction for \$1,767.

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 8

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

## 4. Revenue concentration:

Revenue by business unit:

	Three months ended		Nine months ended	
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
Agriculture	\$ 17,862	\$ 8,978	\$ 47,412	\$ 36,892

Revenue by geographic region:

	Three months ended		Nine months ended	
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
Americas	\$ 3,923	\$ 5,549	\$ 19,165	\$ 20,888
Asia-Pacific (APAC)	452	222	1,371	2,069
Europe, the Middle East, and Africa (EMEA)	13,487	3,207	26,876	13,935
	17,862	8,978	47,412	36,892

Payment terms associated with revenue recognized in each period shown above are normally 30 days from invoice date, however some payment terms are extended up to 90 days.

## 5. Warranty Provisions:

	Warranty	Restructuring	Total
Balance at December 31, 2017	\$ 613	\$ 16	\$ 629
Provisions made during the period	717	-	717
Provisions used during the period	(484)	(16)	(500)
Sale of division	(137)	-	(137)
Balance at September 30, 2018	\$ 709	\$ -	\$ 709



# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 9

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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## **6. Related party transactions:**

In 2016, Jonathan Ladd, while Chairman of the Board of AgJunction was engaged by the Company to act as a Senior Strategic Advisor to the CEO at an hourly rate plus 800 thousand options as share-based compensation whereby the options vest equally over a 48-month period. Mr. Ladd remains as a Senior Strategic Advisor to the CEO and Board Member of AgJunction though his term as Chairman of the Board ended on May 23, 2018.

For the period January 1, 2018 through September 30, 2018, the Company incurred short term compensation expense in the amount of \$67 (\$136 in the same period of 2017) for duties performed by Mr. Ladd as well as \$17 (\$34 in the same period of 2017) in travel and other business-related expenses associated with this service agreement. These expenses are located within the General and administrative line item of the Condensed Consolidated Statement of Profit or Loss. Of these expenses, \$2 were unpaid as of September 30, 2018, and are located within the accounts payable and accrued expenses line item of the Condensed Consolidated Statement of Financial Position.

The options issued to Mr. Ladd in connection to his role as Senior Strategic Advisor have a fair value of \$144 (209 CAD) as of the options' grant date, January 18, 2016. Related share-based compensation expense recognized within the General and administrative line item of the Condensed Consolidated Statement of Profit or Loss for the nine month period presented totals \$19 (24 CAD). The grant date fair value of the options granted was estimated by using the Black-Scholes call option pricing model. The following assumptions were used in determining the fair value: Company share price at issuance; share option exercise price; weighted average volatility of 49%; interest rate of 0.63%; and expected life of 4.0 years.

The terms and conditions of this transaction were no more favorable than those available, or which might reasonably be expected to be available, in similar arrangements with non-key management personnel related to the Company on an arm's length basis.

## **7. Release of license restriction:**

During the first quarter of 2017, the Company entered a strategic agreement with Hemisphere GNSS, Inc. (Hemisphere), a world-class provider of global navigation satellite systems (GNSS) technology, whereby the Company received a one-time payment of \$3.0 million in exchange for releasing Hemisphere from a license restriction that prevented them from selling their GNSS products directly into the global agricultural market. This one-time payment is located within the Other income line of the September 30, 2017 Condensed Consolidated Statements of Profit or Loss.

# AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements, page 10

Three and nine months ended September 30, 2018 and 2017  
(Unaudited - expressed in U.S. thousand dollars, except where noted)

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## 8. Internally Developed Intangible Assets:

The Company incurs research and development expenses during the general course of business to enhance existing products by increasing and/or extending the functionality and/or performance of existing products or to create new products.

During the three months ended September 30, 2018 the Company capitalized \$1,040 in development costs. This capitalization is captured on the Intangible assets line under the assets section on the Condensed Consolidated Statements of Financial Position.

## 9. Sale of Outback Division:

On August 31, 2018, the Company closed the sale of certain assets and liabilities of its Outback Guidance (Outback) business to Hemisphere GNSS (HGNSS) for \$6,000. The transaction will allow AgJunction to focus on its core strategy to grow the market for autosteering.

The sale of Outback includes the Outback Guidance® brand, the REBEL™ autosteering products, and AgJunction's Hiawatha, Kansas and Winnipeg, Canada facilities. HGNSS will take over the relationships with the Outback independent dealer network, and the majority of the Outback workforce are transitioning to HGNSS. Certain assets and liabilities associated with the Outback Guidance business operations sold and are as follows:

	<b>Total</b>
Prepaid expenses	\$ 31
Inventories	3,127
Property, plant and equipment, net	1,543
Assets Sold	\$ 4,701
Deferred revenue	166
Warranty Provisions	137
Accounts payable and accrued expenses	33
Liabilities Sold	336
Assets Sold, net	\$ 4,365

In connection with the sale of Outback, the Company wrote off \$692 of intangible assets related to the Outback division that no longer had any future value to the Company. This \$692 is included in the gain on sale of division. A gain on the sale of division of \$943, was recognized and is reported on the September 30, 2018 Condensed Consolidated Statements of Profit or Loss.