



Management's Discussion and Analysis

Year ended December 31, 2017

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**AgJunction Inc.**  
**Management's Discussion and Analysis**  
**Year ended December 31, 2017**

The following discussion and analysis is effective as of March 21, 2018 and should be read together with our audited annual consolidated financial statements and accompanying notes. 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**

References throughout this document to AgJunction or the "Company" all refer to AgJunction Inc. and its subsidiaries.

AgJunction is a public company listed on the Toronto Stock Exchange that provides innovative hardware and software applications for precision agriculture worldwide.

**Foreign Private Issuer Status**

As reported at December 31, 2014, as of June 30, 2014, the Company determined that a majority of its outstanding shares were held directly or indirectly by US residents. As a result, AgJunction lost its "foreign private issuer" status effective January 1, 2015 as defined in Rule 3b-4 of the Securities and Exchange Act of 1934. AgJunction will however continue to be governed by Canadian securities laws and reporting obligations and is not required to register with the Securities and Exchange Commission or make any filings under the Securities and Exchange Act of 1934.

**Economic and Market Trends**

*Agriculture Markets*

In February 2018, the US Department of Agriculture ("USDA") reported total farm cash receipts increased by \$7.8 billion, or 2.2% resulting in an increase in net farm income of \$2.3 billion or 3.7% in 2017 versus 2016. This marks the first year of increases in net farm income since 2013 which resulted in slightly higher sales of new farm equipment (per the Association of Equipment Manufacturers) in the US, which is the Company's primary market. The Company's revenues are directly correlated to the sales of new farm equipment which are influenced by the health of farm incomes; a leading indicator of the potential revenue trends for the Company.

Per the USDA, net cash farm income is forecasted to decrease by \$5.0 billion, or 5.1% in 2018 resulting in net farm income decline of \$4.3 billion or 6.7%. Cash receipts from crops in 2018 are projected to be down \$1.5 million or 0.8% compared to 2017 with both corn and wheat receipts projected to down, 4.0% and 3.5% respectively.

Management views the 2018 fundamentals of its global agriculture 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. Sales are expected to lag slightly behind the agriculture cycle and related upturn due to the Company's customer base and mix of machine manufacturers. 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.

## Results of Operations

(000's)	Years Ended December 31		
	2017	2016	2015
Sales	\$46,781	\$42,264	\$39,048
Gross margin	19,421	16,528	14,828
	42%	39%	38%
<i>Expenses</i>			
Research and development	8,210	7,736	6,728
Sales and marketing	7,776	6,937	5,403
General and administrative	9,391	8,755	8,433
	25,377	23,428	20,564
Operating (loss)	(5,956)	(6,900)	(5,736)
Intangible asset impairment	–	–	4,714
Goodwill impairment	–	11,301	–
Foreign exchange (gain) loss	4	(32)	203
Interest and other income	(18)	(61)	(23)
(Gain) on sale of other assets, net of liabilities	–	–	(1,623)
Other Income	(3,000)	–	–
Loss on sale of property, plant and equipment	19	111	132
(Loss) before income taxes	(2,961)	(18,219)	(9,139)
Income tax benefit	(290)	–	–
Net (loss)	(2,671)	(18,219)	(9,139)
<i>Loss per common share:</i>			
Basic and diluted	(\$0.02)	(\$0.15)	(\$0.11)

### Selected Statement of Financial Position Information

	As of December 31		
	2017	2016	2015
Total assets	\$39,593	\$41,281	\$61,366

## Year Ended December 31, 2017 versus Year Ended December 31, 2016

### Sales

For the year ended December 31, 2017, Sales were \$46.8 million representing an increase of 10.7% from \$42.3 million in 2016.

(000's)	2017	2016	Change
Agriculture	\$ 46,781	\$ 42,264	11%

### Sales by geographic region

(000's)	2017	2016	Change
Americas	\$26,428	\$24,479	8%
APAC	2,472	4,663	(47%)
EMEA	17,881	13,122	36%
	\$ 46,781	\$ 42,264	11%

In 2017, Sales in the Americas increased by 8% or \$2.0 million versus 2016. Increased demand in the United States, Brazil and Canada generated additional sales of \$1.5 million, \$0.2 million and \$0.2 million, respectively. Sales in APAC decreased by 47% or \$2.2 million versus 2016. The decline was driven by China, where we had a large one-time order in 2016 that was not repeated in 2017. Sales into the EMEA region increased 36% or \$4.8 million versus 2016 due to increased demand from current OEM customers in Germany, France and the Netherlands generating an increase in sales of \$1.0 million, \$3.4 million, and \$0.2 million, respectively.

Sales to customers in the Americas represented 57% of total Sales in 2017 compared to 58% in 2016. Sales in APAC accounted for 5% of total Sales in 2017 versus 11% in 2016. EMEA sales represent 38% of 2017 total Sales, up from 31% in 2016.

### Gross Margins

Gross margins were \$19.4 million for the year, up by \$2.9 million or 18% from gross margins of \$16.5 million in 2016. Gross margins as a percentage of Sales were 41.5% in 2017 compared to 39.1% in 2016. The 2.5% increase in gross margin over the prior year was driven by \$0.6 million or 1.2% in favorable product mix and standard cost, \$0.4 million or 0.8% was due to fewer write-downs of inventory in 2017 compared to 2016 and \$0.2 million or 0.3% was related to production overhead costs absorbed by higher sales.

### Expenses

Operating expenses were \$25.4 million in 2017, up \$2.0 million or 8% from \$23.4 million in 2016. A break out of expenses by line item follows.

Research and development expenses were \$8.2 million in 2017, up \$0.5 million or 6% from \$7.7 million in 2016 related to investment in product development resulting in increased compensation and project costs.

Sales and marketing expenses of \$7.8 million increased by \$0.8 million or 12% from \$6.9 million in 2016 related to increases in compensation costs, consultant costs and recruitment expense incurred due to increased sales demand.

General and administrative expenses of \$9.4 million increased by \$0.6 million or 7% from \$8.8 million in 2016 related to compensation costs and ERP implementation expense.

## ***Goodwill Impairment***

In accordance with IFRS, goodwill must be assessed for impairment annually or more often if an event or circumstance indicates that impairment may have occurred. The Company has one cash generating unit (“CGU”) to evaluate for impairment. In 2016, an impairment of \$11.3 million was taken.

Management completed the annual assessment of the carrying value of the goodwill reported in the Consolidated Statement of Financial Position at December 31, 2017 and concluded that the goodwill balance associated with the Agriculture CGU of \$143 thousand was not impaired. Goodwill carried on the Company’s balance sheet arose in the course of the following Agriculture CGU acquisitions:

- Satloc business assets – March 1999
- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007
- AgJunction business assets – January 2012
- Novariant, Inc. – October 2015

The Company determined the fair value of the agriculture CGU at December 31, 2017 using a discounted cash flow model consistent with recognized valuation methods. The most significant assumptions underlying the model prepared by management include: Sales, Sales growth, gross margins, operating expenses, income taxes, weighted average cost of capital, and capital expenditures. Significant factors impacting these assumptions include estimates of future market share, competition, technological developments, interest rates, and market trends. The assumptions incorporated into the discounted cash flow model reflect management’s long-term view of the Company’s business and the markets in which it competes.

In formulating its conclusions, management also considered a variety of related information, including:

- Market capitalization;
- Seasonal factors impacting the Company’s share price at particular periods;
- the impact on share prices of reduced liquidity in the public markets, particularly in Canada;
- the expected impact of economic conditions on the Company’s long-term business activities.

## ***Foreign Currency Risk Management***

The Company has the ability to mitigate exposure to foreign currency risk as the Board of Directors has approved the execution of financial instruments with a maximum notional value of US\$40 million which have the objective of offsetting the exposure the Company faces by carrying positive Canadian and Australian dollar working capital. There are no hedge contracts outstanding at December 31, 2017 or 2016.

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

In 2017, the Company recorded net interest and other income of \$18 thousand compared to \$61 thousand in 2016. The Company earns interest income on certain cash balances which is offset by interest paid.

In addition, during the first quarter of 2017, the company recorded \$3.0 million 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 incurred a foreign exchange loss of \$4 thousand in 2017, compared to a gain of \$32 thousand in 2016. Foreign exchange gains/losses reported in the Consolidated Statement of Profit or Loss arise primarily from the impact of the fluctuating Canadian dollar on the translation and settlement of Canadian dollar denominated working capital.

### ***Loss on sale of property, plant and equipment***

The Company recorded a net loss on the disposal of property, plant and equipment totaling \$19 thousand in 2017 compared to \$0.1 million in 2016. These disposals relate to assets no longer needed to support ongoing operations.

### ***Income taxes***

The Company recognized a net income tax benefit of \$290 thousand in 2017 of which \$15 thousand in expense was related to operations in China and \$305 thousand benefit was related to unrecognized deferred tax assets generated from prior year US alternative minimum tax (AMT) credits. No benefit or expense was recorded in the same period of 2016.

In Canada, at the end of 2017, the Company has loss carry forwards of \$10.1 million that can be used to reduce Canadian taxable income in future years, as well as investment tax credits in the amount of \$2.3 million that can be used to reduce Canadian federal taxes otherwise payable in future years.

The Company's US operating subsidiaries, AgJunction Corporation, AgJunction LLC, CSI Wireless LLC, and Novariant, Inc. file as a combined entity for US federal tax purposes. At December 31, 2017, the Company has cumulative US net operating losses of \$49.7 million that can be used to reduce US taxable income in future years, as well as \$5.8 million of research and development tax credits that can be used to reduce federal taxes otherwise payable in future years.

The Company's Australian subsidiaries, AgJunction Pty Ltd. and AgJunction AUS Pty Ltd., file as a combined entity for Australian income tax purposes. At December 31, 2017, the Company has losses of approximately \$7.1 million available to reduce Australian taxable income in future years.

The Company does not recognize any deferred tax assets on its book.

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

In 2017, the Company generated net loss of \$2.7 million or \$0.02 per share (basic and diluted), compared to a net loss of \$18.2 million or \$0.15 per share (basic and diluted) in 2016.

## Summary of Quarterly Results

	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec
(000's)	2016	2016	2016	2016	2017	2017	2017	2017
Sales	\$15,489	\$11,894	\$6,657	\$8,224	\$14,573	\$13,341	\$8,978	\$9,889
Gross margin	6,674	4,780	2,190	2,884	6,827	5,515	3,229	3,850
	43%	40%	33%	35%	47%	41%	36%	39%
Expenses:								
Research and development	1,949	2,028	1,756	2,003	2,083	1,861	1,752	2,514
Sales and marketing	1,918	1,809	1,570	1,641	1,903	1,960	2,117	1,796
General and administrative	2,540	2,221	1,939	2,055	2,226	2,218	2,418	2,529
	6,407	6,058	5,265	5,699	6,212	6,039	6,287	6,839
Operating income (loss)	267	(1,278)	(3,075)	(2,815)	615	(524)	(3,058)	(2,989)
Goodwill impairment	-	-	11,301	-	-	-	-	-
Foreign exchange (gain) loss	23	(60)	7	(3)	(4)	(22)	43	(13)
Interest and other (income) loss	-	(40)	(21)	-	1	1	(20)	-
Loss on sale of property, plant and equipment	1	29	(5)	86	-	18	1	-
Other Income	-	-	-	-	(3,000)	-	-	-
	24	(71)	11,282	83	(3,003)	(3)	24	(13)
Net income (loss) before income taxes	243	(1,207)	(14,357)	(2,898)	3,618	(521)	(3,082)	(2,976)
Income taxes	-	-	-	-	-	19	-	(309)
Net income (loss)	243	(1,207)	(14,357)	(2,898)	3,618	(540)	(3,082)	(2,667)
Earnings (loss) per common share:								
Basic and diluted	\$0.00	(\$0.01)	(\$0.12)	(\$0.02)	\$0.03	\$0.00	(\$0.02)	(\$0.02)
<i>Weighted Average Diluted Shares</i>	124,001	123,732	124,848	123,773	124,307	128,268	124,475	121,157

Sales by region on a quarterly basis are as follows:

For the Quarter Ended

(000's)	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017	30-Sep 2017	31-Dec 2017
Americas	\$7,456	\$7,765	\$4,581	\$4,677	\$8,254	\$7,085	\$5,549	\$5,540
APAC	3,013	520	584	546	1,026	822	222	402
EMEA	5,020	3,609	1,492	3,001	5,293	5,434	3,207	3,947
	\$15,489	\$11,894	\$6,657	\$8,224	\$14,573	\$13,341	\$8,978	\$9,889

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

1. A large component of the Company's Sales is derived from North American agriculture markets which are subject to the seasonality of the agricultural buying season, with the first half of the year being the strongest and the second half being the weakest. Initiatives to mitigate the seasonality include sales efforts in the Southern Hemisphere which is generally counter-seasonal to the Northern Hemisphere agricultural seasons and strategies focused on increasing sources of recurring Sales.
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 December 31, 2017 versus Quarter Ended December 31, 2016

### Sales

Sales during the fourth quarter were as follows:

(000's)	Q4 2017	Q4 2016	Change
Agriculture	\$ 9,889	\$ 8,224	20%

Sales by region for the fourth quarter of 2017 and 2016 are as follows:

(000's)	Q4 2017	Q4 2016	Change
Americas	\$ 5,540	\$ 4,677	18%
APAC	402	546	(26%)
EMEA	3,947	3,001	32%
	\$9,889	\$8,224	20%

In the fourth quarter of 2017, sales in the Americas increased by 18% or \$0.9 million versus the same quarter of 2016. Increased demand in the United States, Brazil, Panama and Canada generated additional sales of \$0.5 million, \$0.1 million, \$0.1 million and \$0.1 million, respectively. Sales in APAC decreased by 26% or \$0.1 million driven by slightly weaker markets in Australia and slightly higher demand in Japan. Sales into the EMEA region increased 32% or \$0.9 million due to increased demand in Germany and France generating increased sales of \$0.7 million and \$0.1 million, respectively.

Sales to customers in the Americas represented 56% of total Sales in the fourth quarter of 2017 compared to 57% in the fourth quarter of 2016. APAC sales represented 4% of total Sales in the fourth quarter of 2017, down from 7% for the same period in 2016. EMEA sales accounted for 40% of fourth quarter 2017 total Sales, up from 36% in the same period in 2016.

### Gross Margins

Gross margins in the fourth quarter of 2017 were \$3.9 million compared to \$2.9 million in the fourth quarter of 2016. Gross margins, as a percentage of Sales, were 39% in the fourth quarter of 2017 compared to 35% in the fourth quarter of 2016. The four percent increase in gross margin over the prior year was driven by \$0.2 million or 2.0% in favorable product mix and standard cost, \$0.1 million or 1.0% was due to a decrease of reserve for obsolete product in comparison to the prior year and \$0.1 million or 1.0% was related to production overhead costs being absorbed by higher sales.

### Expenses

Operating expenses were \$6.8 million in the fourth quarter of 2017, up \$1.1 million or 20% from \$5.7 million in the fourth quarter of 2016. A detailed discussion of operating expenses by financial statement line item follows.

Research and development expenses totaled \$2.5 million in the fourth quarter of 2017, representing an increase of \$0.5 million or 25% from \$2.0 million from the same period in 2016; the increase was related to compensation and project costs driven by increased demand.

Sales and marketing expenses of \$1.8 million in the fourth quarter of 2017 increased by \$0.2 million or 13% from \$1.6 million in 2016 related to increases in compensation costs, consultant costs and recruitment expense incurred due to increased sales demand.

General and administrative expenses of \$2.5 million in the fourth quarter of 2017, an increase of \$0.4 million or 19% from \$2.1 million in the fourth quarter of 2016 related to compensation costs and ERP implementation expense.

### ***Interest and Foreign Exchange***

The Company did not have interest or other income in the fourth quarter of 2017 or 2016.

The Company reported a foreign exchange gain in the fourth quarter of 2017 of \$13 thousand, compared to a gain of \$3 thousand in 2016. The foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar monetary working capital.

### ***Loss on Sale of Property, Plant and Equipment***

The Company did not incur a loss or gain on the sale and/or disposal of property, plant and equipment in the fourth quarter of 2017 compared to a loss of \$86 thousand in the same period of 2016.

### ***Income Taxes***

The Company recognized income tax credit of \$309 thousand for the fourth quarter of 2017 related to unrecognized deferred tax assets generated from prior year US alternative minimum tax (AMT) credits, no such expense was recorded in the same period of 2016.

### ***Earnings (Loss)***

In the fourth quarter of 2017, the Company generated net loss of \$2.7 million or \$0.02 per share (basic and diluted), compared to a net loss of \$2.9 million or \$0.02 per share (basic and diluted) in 2016.

### **Liquidity and Capital Resources**

#### ***Working Capital***

The Company held cash of \$13.9 million at December 31, 2017 compared to \$12.9 million at the end of 2016. Working capital was \$20.3 million at December 31, 2017, down from \$22.4 million at December 31, 2016.

Accounts receivable, net of allowance, at December 31, 2017 was \$4.2 million versus \$4.8 million at December 31, 2016. The Company's standard terms on accounts receivable are net 30 though programs offering extended terms may be executed throughout the year in order to promote sales. Outstanding accounts receivable of \$0.7 million and \$0.7 million as of December 31, 2017 and December 31, 2016, respectively, originate from programs with extended terms. The Company employs established credit approval and regular account monitoring practices to mitigate the credit risk associated with accounts receivable. At December 31, 2017 and 2016, the Company had a reserve for accounts receivable totaling \$228 thousand and \$74 thousand, respectively.

Inventories consist of components, raw materials, work in process and finished goods related to the products sold by the Company. Inventory was \$7.6 million at December 31, 2017 compared to inventory of \$8.2 million at December 31, 2016. The Company reviews inventory movement on a quarterly basis using the previous eighteen (18) months history to make adjustments to the net realizable value of the total inventory.

The primary items impacting cash during the year were:

- Cash generated from continuing operations was \$3.2 million for 2017 compared to \$0.2 million in 2016. Of this \$3.0 million change, \$15.6 million relates to a difference in net (loss). This was offset by changes in items not involving cash including \$11.3 million goodwill write off in 2016 not repeated in 2017 and a difference of \$443 thousand inventory write down in 2016 versus 2017. Impacts of non-cash operating working capital from 2016 to 2017 include a difference of \$3.0 million in accounts receivable and \$2.5

million in inventory offset by increases in accounts payable and accrued liabilities by \$4.3 million and \$536 thousand in provisions.

- Cash used in investing activities was \$1.8 million compared to \$0.1 million of cash from investing activities in 2016. Cash of \$1.8 million was used to buyback approximately 7.9 million shares of stock, at a price reflecting a 50% discount from the closing price on the transaction date.
- Accounts receivable at December 31, 2017 was \$4.2 million versus \$4.8 million at December 31, 2016.
- Inventory was \$7.6 million at December 31, 2017 versus \$8.2 million at December 31, 2016. This decrease in inventory relates to better inventory management and increased cash by \$600 thousand.
- Accounts payable and accrued liabilities at December 31, 2017 were \$5.6 million versus \$3.7 million at December 31, 2016.
- Total tangible capital spending in 2017 was \$0.4 million (2016 - \$0.5 million). Property and equipment purchased during 2017 included primarily computer equipment, computer software, production equipment and patents.

#### *Foreign Currency Risk Management Program*

The Company has adopted the US dollar as the reporting and measurement currency under IFRS. As a result, fluctuations in the foreign exchange rates effect Canadian dollar and Australian dollar denominated operating expenses - giving rise to foreign currency gains and losses.

The Board of Directors has approved the execution of financial instruments with a maximum notional value of US\$40 million which have the objective of offsetting the foreign exchange exposure. In 2017 and 2016, the Company entered financial instruments which are settled for cash using the following reference foreign exchange rates:

- Canadian dollar - Bank of Canada noon day rate
- Australian dollar - 11AM US Fed fixed rate

There are no outstanding financial instruments in 2017 as the Company has mitigated a significant portion of our foreign exchange risk with the sale of the non-agriculture operations and closing of the Calgary office.

#### *Property and Equipment*

The Company's property and equipment is comprised of computer hardware and software, equipment for production and research purposes and furniture and fixtures, vehicles and building and leasehold improvements.

During 2017, the Company invested \$0.4 million in property and equipment (2016 - \$0.5 million). Capital additions included computer equipment and software, production equipment, and patents.

#### *Intangible Assets*

Intangible assets include assets acquired through acquisition including trademarks and brands, customer relationships, marketing and distribution assets and technology as well as internally developed technology. The Company's acquired intangible assets derive from the following acquisitions:

- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007
- Novariant, Inc. – October 2016

There were no intangible asset additions in 2017. Intangible asset additions totaling \$3 thousand occurred during 2016.

### *Goodwill*

The Company carried goodwill of \$0.1 million at December 31, 2017. For the purpose of impairment testing, goodwill is allocated to the Company's Agriculture cash generating unit (CGU).

The Company determined the value of the agriculture CGU as of December 31, 2017 using a "discounted cash flow" model, consistent with recognized valuation methods. The most significant assumptions underlying the model prepared by management include: Sales, Sales growth, gross margins, operating expenses, income taxes, weighted average cost of capital, and capital expenditures. Significant factors impacting these assumptions include estimates of future market share, competition, technological developments, interest rates, and market trends. The assumptions incorporated into the discounted cash flow model reflect management's long-term view of the Company's business and the markets in which it competes.

In accordance with IFRS, goodwill is assessed for impairment annually, or more often if an event or circumstance indicates that an impairment may have occurred. Management completed its annual assessment of the carrying value of the goodwill reported in the Consolidated Statement of Financial Position as of December 31, 2017 using the discounted cash flow model detailed above and determined goodwill totaling \$0.1 million was not impaired.

### *Borrowings and Credit Facilities*

In February 2014, the Company entered in to an agreement for a credit facility, which provides up to a maximum of \$3 million operating line of credit. No amount has been drawn from the facility. The operating line of credit is secured by a commercial security agreement covering all accounts and general intangibles and bears interest at the bank's prime rate minus 1.0%. The operating line of credit matures May 19, 2018.

### *Share Capital*

At March 21, 2018, there were 116.9 million common shares, 2.3 million restricted stock awards, and 7.4 million stock options outstanding.

During 2017 no stock options were exercised compared to 45 thousand stock options exercised in 2016.

Also during 2017, the company granted 745 thousand RSAs net of cancellations and purchased 7.9 million common shares for retirement.

### *Contractual Obligations*

The following table quantifies the Company's contractual obligations as of December 31, 2017:

<b>Contractual Obligations</b> (000's)	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>	<b>After 5 years</b>
Accounts payable and accrued liabilities	\$ 5,649	\$ 5,649	\$ –	\$ –	\$ –
Operating leases	1,989	524	921	448	96
	<b>\$ 7,638</b>	<b>\$ 6,173</b>	<b>\$ 921</b>	<b>\$ 448</b>	<b>\$ 96</b>

### *Subsequent Events*

The Company evaluated subsequent events through March 21, 2018, the date the consolidated financial statements were available to be issued and has determined that there were no subsequent events through the evaluation date which merit disclosure.

## 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, sales 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 December 31, 2017, 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 sales. Any expenses directly relating to warranty claims are expected to offset the provision in period.

## Business and Market Risks

The nature of the Company's business gives rise to certain risks that may impact future financial results. In addition to risks described elsewhere in this report, the Company identifies the following risks to currently be the most significant:

### 1. *Financial Results*

The Company was not profitable for the 2017 fiscal year, nor during the years ended December 31, 2001 to 2016 except for during the years ended December 31, 2004, 2008, and 2013.

It is possible that losses will occur in any of the four quarters of 2018 and that a loss could be realized for the full 2018 year. This could arise from the impact of current negative macro-economic conditions, or the Company could fail to execute on its business plan. Future sales, gross margins and expenses are subject to many factors beyond the Company's control, including:

- the liquidity and business plan execution of customers;
- general industry conditions;
- the rate of acceptance of the Company's products;
- new technologies in the marketplace;
- the development and timing of the introduction of new products;
- price and product competition from competitors;
- the product mix of the Company's sales;

- possible delays in shipment of the Company's products;
- possible delays or shortages in component supplies;
- other risk factors described in this MD&A; and
- other risk factors not foreseen at this time.

2. *Foreign Currency Valuation Fluctuations*

Sales of the Company's products are transacted primarily in US dollars. Expenses are incurred in US dollars, Canadian dollars and Australian dollars, and as a result, the Company is exposed to risk associated with US, Canadian and Australian dollar fluctuations. A strengthening in the US dollar relative to the Canadian dollar, as was seen in 2008, 2013, 2014, 2016, and 2017 results in lower relative US dollar expenses for the Company when compared to a weaker US dollar.

The Company denominates a large majority of its sales in US dollars. A stronger US dollar, compared to the currencies of countries where the Company is selling its products, makes the Company's products more expensive to customers in those countries. As a result, a strong US dollar, as was seen during 2017 could have a negative impact on sales to such countries. As the Company expands with increased global sales, it is expected that it may be necessary to transact a larger volume of sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk.

3. *General Economic and Financial Market Conditions*

Changes in regional conditions in market and business environments could have a negative impact on the Company's 2018 performance. The Company's agricultural product sales have typically been affected to some extent each year by changes in growing season due to drought, commodity prices affecting net farm income, and other conditions in certain markets. For example, a drought was seen for several years in significant regions in Australia which has negatively impacted sales of agriculture guidance products in that market. Should negative weather conditions arise in any of the Company's key markets in 2018, the Company could realize lower-than-expected Sales in the impacted market areas.

4. *Dependence on Key Personnel*

The Company's success is largely dependent upon the performance of key personnel. The unexpected loss or departure of any key officers or employees could be detrimental to the future operations. The success of the Company will depend, in part, upon the ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other employees is high in the Precision Agriculture industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

5. *Competition*

The Company is competing in a highly competitive industry that is constantly evolving and changing. The Corporation expects this competition to increase as new competitors enter the market. Many of our competitors may have greater financial, technical, sales, production and marketing resources. We compete with companies that also have established customer bases and greater name recognition. This may allow competitors to respond more quickly to the GPS market and to better implement technological developments. There is no assurance that the Company will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

6. *Third Party Dependence*

Many of the Company's products rely on signals from satellites, and other ground support systems, that it does not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the global navigation satellite systems ("GNSS") and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that governments will remain committed to the operation and maintenance of

GNSS satellites over a long period of time or that the policies of governments for the commercial use of GNSS satellites without charge will remain unchanged.

In addition to reliance of satellite signals, the sale of the non-agricultural business included the sale of the GNSS operations. The sale agreement provided for a three-year supply agreement ending in January, 2017, in which the price of services is fixed. The contract is currently under negotiations. There are multiple companies which provide GNSS services which mitigates the risk of dependence.

7. *Dependence on New Products*

The Company must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If the Company is unable to successfully define, develop and introduce competitive new products, and enhance existing products, future results would be adversely affected.

8. *Intellectual Property*

The industry in which the Company operates has many participants that own, or claim to own, proprietary intellectual property. The Company has received, and may receive, claims from third parties claiming that the Company has infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if the Company has violated the intellectual property rights of others. Also, a competitor might infringe on the Company's proprietary intellectual property forcing the Company to pursue litigation to defend its ownership of that proprietary intellectual property. As a result of such claims, the Company could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs.

9. *Government Regulation*

The Company's products are subject to government regulation in the United States, Canada and other regions in which we operate. Although the Company believes that it has obtained the necessary approvals for the products that it currently sells, it may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or the Company may not be able to obtain regulatory approvals from countries in which it may desire to sell products in the future.

10. *Availability of Key Suppliers*

The Company is reliant upon certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes, financial failures impacting suppliers, or from a variety of other potential issues. The raw materials used in certain operations are available only through a limited number of vendors. Although the Company believes there are alternative suppliers for most of its key requirements, if current suppliers are unable to provide the necessary raw materials or fail to deliver products in the quantities required on a timely basis, then the related delays in the manufacture or distribution of products could have a material adverse effect on the Company's results of operations and its financial condition.

11. *Credit Risk*

The Company has an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of new customers to establish credit limits. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances. Losses could be realized by the Company if customers default on their balances owing.

#### *12. Technology Risk*

The Company's success may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. The Company's products embody complex technology that may not meet those standards, changes and preferences. The Company may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause the Company to be unable to recover significant research and development expenses and could reduce its Sales.

#### *13. Future Acquisitions*

The Company may seek to expand its business and capabilities through the acquisition of compatible technology, products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favorable terms, or that the acquired operations can be profitably operated or integrated into the Company. In addition, any internally generated growth experienced by the Company could place significant demands on Management, thereby restricting or limiting the Company's available time and opportunity to identify and evaluate potential acquisitions. To the extent Management is successful in identifying suitable companies or products for acquisition, the Company may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain assets, impeding the Company's ability to obtain bank financing, decreasing its liquidity, and adversely affecting its ability to declare and pay dividends to its shareholders.

#### *14. Proprietary Protection*

The Company's success will depend, in part, on its ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent its rights. The Company relies on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect its proprietary information. There can be no assurance that the steps taken will prevent misappropriation of its proprietary rights. The Company's competitors also could independently develop technology similar to its technology. Although the Company does not believe that its products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company, or that any such assertions or prosecutions will not materially adversely affect its business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof, which could have a material adverse effect on its business.

#### *15. Product Liability*

The sale and use of the Company's products entail risk of product liability. Although the Company has product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

#### *16. New and Emerging Markets*

Many of the markets for the Company's products are new and emerging. The Company's success will be significantly affected by the outcome of the development of these new markets.

#### *17. Physical Facilities*

The Company has facilities in several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

*18. Legal Risks*

In common with other companies, the Company is subject to legal risks related to operations, contracts, relationships and otherwise under which it may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs as well as significant time and distraction of Management and employees – which could negatively impact the Company’s ability to execute its business plans. Management believes the Company carries appropriate insurance coverage to sufficiently mitigate related financial risk.

*19. Technology Failures or Cyber-Attacks*

We rely on information technology systems to process, transmit and store electronic information. In addition, a significant portion of internal communications, as well as communication with customers and suppliers depends on information technology. Further, certain of our products depend upon GPS and other systems through which our products interact with government computer systems and other centralized information sources. We are exposed to the risk of cyber incidents in the normal course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property or other sensitive information or may be the result of unintentional events. Like most companies, our information technology systems may be vulnerable to interruption due to a variety of events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. Further, attacks on centralized information sources could affect the operation of our products or cause them to malfunction. We have technology security initiatives and disaster recovery plans in place to mitigate our risk to these vulnerabilities, but these measures may not be adequate or implemented properly to ensure that our operations are not disrupted. Potential consequences of a material cyber incident include damage to our reputation, litigation and increased cyber security protection and remediation costs. Such consequences could adversely affect our results of operations.

*20. Foreign Private Issuer Status*

As of June 30, 2014, AgJunction determined that a majority of its outstanding shares were held directly or indirectly by US residents. As a result, AgJunction lost its “foreign private issuer” status effective January 1, 2015 as defined in Rule 3b-4 of the Securities and Exchange Act of 1934. AgJunction however continues to be governed by Canadian securities laws and reporting obligations and is not required to register with the Securities and Exchange Commission or make any filings under the Securities and Exchange Act of 1934.

## **Disclosure Controls and Procedures**

Our Management is responsible for establishing and maintaining adequate disclosure controls and procedures for the Company. Our disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports filed with securities regulatory authorities is recorded, processed, summarized and reported within prescribed time periods and is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

An evaluation was carried out under the supervision of, and with the participation of, our Management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of December 31, 2017. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under applicable securities laws and regulations is recorded, processed, summarized, and reported within the time periods specified thereby.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures have been designed with the objective to provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. We considered these limitations during the development of our disclosure controls and procedures and will periodically re-evaluate them to ensure they provide reasonable assurance that such controls and procedures are effective.

## **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 have conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2017 for all locations consolidated in the financial statements.

## 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;
- 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; the cost of expanding the Company'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.

Consolidated Financial Statements of



Years ended December 31, 2017 and 2016

(Expressed in U.S. dollars)

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of AgJunction Inc. ("AgJunction" or the "Company") is responsible for the preparation and the presentation of the consolidated financial statements and related information published in the annual report. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of the financial information necessarily requires the use of some estimates and judgments, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the consolidated financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

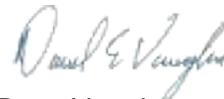
The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee which is comprised entirely of independent directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

Management also recognizes its responsibility for ensuring that the Company, at all times, conducts its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.



Michael Manning  
Sr. Vice President & Chief Financial Officer  
March 21, 2018



Dave Vaughn  
President & Chief Executive Officer  
March 21, 2018



RSM US LLP

## Independent Auditor's Report

The Shareholders  
AgJunction Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of AgJunction Inc. (the Company), which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, the related consolidated statements of profit or loss, changes in equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

We are independent of the Company in accordance with ethical requirements that are relevant to our audit of the financial statements in the United States of America, together with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants*, and we have fulfilled our other ethical responsibilities in accordance with these requirements, respectively.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations or has no realistic alternative but do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance but is not a guarantee that an audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**THE POWER OF BEING UNDERSTOOD**  
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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. We design audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation, structure, and content of the financial statements, including disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the consolidated financial position of AgJunction Inc. and its subsidiaries as of December 31, 2017 and 2016, and the consolidated financial performance and their consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

*RSM US LLP*

Kansas City, Missouri  
March 21, 2018

# AgJunction Inc.

## Consolidated Statements of Financial Position

(Expressed in U.S. dollars)

(000s)	December 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 5)	\$ 13,893	\$ 12,863
Accounts receivable, net (note 6)	4,185	4,776
Inventories (note 7)	7,627	8,226
Prepaid expenses and deposits	990	974
	<u>26,695</u>	<u>26,839</u>
Property, plant and equipment, net (note 8)	2,899	3,176
Intangible assets, net (note 9)	9,856	11,123
Goodwill (note 21)	143	143
	<u>\$ 39,593</u>	<u>\$ 41,281</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,649	\$ 3,680
Provisions (note 10)	629	545
Current portion of deferred revenue	149	206
	<u>6,427</u>	<u>4,431</u>
Deferred revenue, less current portion	100	158
Total liabilities	<u>6,527</u>	<u>4,589</u>
Shareholders' equity:		
Share capital (note 12)	146,896	148,391
Equity reserve	5,805	5,265
Accumulated deficit	(119,635)	(116,964)
	<u>33,066</u>	<u>36,692</u>
	<u>\$ 39,593</u>	<u>\$ 41,281</u>

See accompanying notes to consolidated financial statements.

# AgJunction Inc.

Consolidated Statements of Profit or Loss  
Years ended December 31, 2017 and 2016  
(Expressed in U.S. dollars)

(000s)	2017	2016
Revenue (note 16)	\$ 46,781	\$ 42,264
Cost of sales	27,360	25,736
Gross profit	19,421	16,528
Expenses:		
Research and development	8,210	7,736
Sales and marketing	7,776	6,937
General and administrative	9,391	8,755
	25,377	23,428
Operating (loss)	(5,956)	(6,900)
Goodwill impairment (note 21)	–	11,301
Foreign exchange (gain) loss, net	4	(32)
Interest and other income	(18)	(61)
Other income (note 22)	(3,000)	–
Loss on sale of property, plant and equipment (note 8)	19	111
	(2,995)	11,319
Net (loss) before income taxes	(2,961)	(18,219)
Income tax benefit (note 17)	(290)	–
Net (loss)	\$ (2,671)	\$ (18,219)
Earnings per share:		
Basic and diluted (loss) per share (note 15)	\$ (0.02)	\$ (0.15)

See accompanying notes to consolidated financial statements.

# AgJunction Inc.

Consolidated Statements of Changes in Equity

Years ended December 31, 2017 and 2016

(Expressed in U.S. dollars)

(000s)	Share capital	Equity reserve	Deficit	Total equity	Number of shares
Balance at January 1, 2016	\$ 147,929	\$ 4,670	\$ (98,745)	\$ 53,854	122,829
Net (loss)	–	–	(18,219)	(18,219)	–
Issue of common shares for professional services	66	–	–	66	158
Share-based payment transactions	–	970	–	970	–
Share options exercised	21	–	–	21	45
Issue of restricted share awards, net (note 12)	375	(375)	–	–	1,042
Balance at December 31, 2016	148,391	5,265	(116,964)	36,692	124,074
Net (loss)	–	–	(2,671)	(2,671)	–
Purchase and cancellation of common shares (note 12(g))	(1,767)	–	–	(1,767)	(7,853)
Share-based payment transactions	–	812	–	812	–
Issue of restricted share awards, net (note 12)	272	(272)	–	–	658
Balance at December 31, 2017	\$ 146,896	\$ 5,805	\$ (119,635)	\$ 33,066	116,879

See accompanying notes to consolidated financial statements.

# AgJunction Inc.

Consolidated Statements of Cash Flows  
 Years ended December 31, 2017 and 2016  
 (Expressed in U.S. dollars)

(000s)	2017	2016
Cash flows from operating activities:		
Net (loss)	\$ (2,671)	\$ (18,219)
Items not involving cash:		
Depreciation (note 8)	681	707
Amortization (note 9)	1,267	1,272
Share-based payment transactions (note 12)	812	970
Allowance on trade receivables (note 6)	172	5
Write down of inventory to net realizable value (note 7)	601	1,044
Loss on disposal of property, plant and equipment (note 8)	19	111
Goodwill impairment (note 21)	–	11,301
Change in non-cash operating working capital:		
Accounts receivable	419	3,443
Inventories	(2)	2,531
Prepaid expenses and deposits	(16)	1
Accounts payable and accrued liabilities	1,969	(2,290)
Provisions (note 10)	84	(452)
Deferred revenue	(115)	(182)
Cash flows from operating activities	3,220	242
Cash flows from (used in) financing activities:		
Payment of finance lease liability	–	(1)
Purchase and cancellation of common shares (note 12)	(1,767)	–
Interest received (paid), net	–	(1)
Issue of common shares	–	87
Cash flows from (used in) financing activities:	(1,767)	85
Cash flows used in investing activities:		
Proceeds from the sales of property, plant and equipment (note 8)	1	13
Purchase of property, plant and equipment (note 8)	(424)	(522)
Intangible asset addition (note 9)	–	(3)
Cash flow used in investing activities	(423)	(512)
Increase (decrease) in cash position	1,030	(185)
Cash and cash equivalents, beginning of year	12,863	13,048
Cash and cash equivalents, end of year	\$ 13,893	\$ 12,863

See accompanying notes to consolidated financial statements.

# AgJunction Inc.

Notes to the Consolidated Financial Statements

Years ended December 31, 2017 and 2016

(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 2207 Iowa Street, Hiawatha, Kansas. The Company operates in the precision agriculture market and develops products to enhance the efficiency and productivity of agricultural activities through the use of technology. The Company operates in the precision agriculture market and develops products to enhance the efficiency and productivity of agricultural activities through the use of technology. The Company designs, manufactures and markets products and applications, incorporating technologies that provide intelligent automation and navigation solutions through the sophisticated integration of Global Navigation Satellite Systems ("GNSS") positioning and other technologies used in precision machine guidance, steering and flow control. The Company's products offer accurate positioning and machine control capabilities for the agriculture sector, including machine control and auto-steering systems. The consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company"). The consolidated financial statements were authorized for issue by the Board of Directors on March 21, 2018.

## 2. Basis of preparation:

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

### (b) Basis of measurement:

The consolidated financial statements have been prepared on the going concern and historical cost basis except for non-derivative financial assets at fair value through profit and loss.

### (c) Functional and presentation currency:

These consolidated financial statements are presented in United States dollars, which is also the Company's functional currency.

### (d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Some of the significant estimates and assumptions used in preparing the consolidated financial statements are as follows:

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 2

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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## 2. Basis of preparation (continued):

(i) Allowance for doubtful accounts (note 6):

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.

(ii) Deferred tax assets (note 17):

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and other tax assets, to the extent future taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses and other tax assets can be utilized. Changes in the timing of the reversals of the income tax rates applicable in future years could result in significant differences between the estimates and the actual amounts realized, which would affect net earnings in a subsequent period.

(iii) Goodwill impairment (note 21):

The Company has a single cash-generating unit ("CGU"), the agricultural business unit which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Goodwill impairment is determined by assessing the recoverable amount of the assets or CGU to which the asset relates. The recoverable amount of an asset or CGU is the greater of fair value less cost to sell and the value in use.

Fair value less cost to sell takes into consideration the market capitalization of the Company as there is only one CGU. The value in use of the CGU is determined using a "discounted cash flow" model, consistent with recognized valuation methods. The most significant assumptions underlying the model prepared by Management include: revenues, revenue growth, gross margins, operating expenses, income taxes, weighted average cost of capital, and capital expenditures. Significant factors impacting these assumptions include estimates of future market share, competition, technological developments, interest rates, and market trends. Assumptions incorporated into the discounted cash flow model reflect Management's long-term view of the Company's business and the markets in which it competes.

Impairment losses are measured as the difference between the carrying amount of the goodwill and its recoverable amount.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 3

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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## 2. Basis of preparation (continued):

### (v) Inventory obsolescence (note 7):

Inventory is measured at the lower of cost or net realizable value. The Company evaluates inventory based on movement over an 18 month period classifying inventory as active, slow-movement or zero-movement. Items classified as zero-movement, are deemed obsolete and are estimated to have no value. Items classified as slow-moving are valued based on historical cost recovery rates.

### (vi) Provisions (note 10):

Based on historical information of warranty claims compared to revenue, the Company provisions an amount for future claims on items sold in the current period. Any expenses directly relating to warranty claims are expected to offset the provision in the period.

### (vii) Share-based payments (note 12)

Share-based payments are measured at fair value at the date of grant. Fair value is measured by using a Black Scholes option pricing model, taking into account the terms and conditions upon which the equity instruments were granted as well as management's best estimate of the expected life of such share options. The following inputs are utilized in determining the fair value of share-based payments: the Company's share price at issuance; share option exercise price; weighted average volatility; interest rate; and expected life.

## 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company transactions, balances and unrealized gains or losses on inter-company transactions have been eliminated upon consolidation. AgJunction LLC (formerly Hemisphere GPS LLC), AgJunction AUS Pty Ltd. (formerly Hemisphere AUS Pty Ltd.), Novariant, Inc. (acquired on October 15, 2015), and AgJunction Machinery (Shanghai) Ltd. (incorporated November 29, 2016) are wholly owned operating subsidiaries of the Company.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 4

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

#### (b) Foreign currency translation:

Under IFRS, functional currency of each entity in the Company is determined separately in accordance with the indicators as per IAS 21, The Effects of Changes in Foreign Exchange Rates, and should be measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). Based on IAS 21, the functional currency of the Company and its subsidiaries is determined to be United States dollar.

Foreign currency transactions denominated in other than United States dollars are translated into the functional currency on the following basis:

- (i) Monetary assets and liabilities are translated at the rates of exchange prevailing at statement of financial position date.
- (ii) Non-monetary assets, liabilities and related depreciation expenses that are measured at historical cost are translated using the exchange rate at the date of the transaction.
- (iii) Income and expenses for each statement of profit or loss presented are translated at average exchange rates during the month in which they are recognized.

Exchange differences resulting from the settlement of foreign currency transactions and the gain or loss due to remeasurement of assets and liabilities held in foreign currencies are recognized directly in the “foreign exchange (gain) loss” line item of the consolidated statement of profit or loss in the period in which incurred.

#### (c) Financial instruments:

##### (i) Non-derivative financial assets:

The Company initially recognizes trade and other receivables and deposits on the date they originate. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 5

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity financial assets and receivables.

Financial assets at fair value through profit or loss ("FVTPL"):

Financial assets designated as FVTPL are stated at fair value with the gain or loss recognized in the consolidated statement of profit or loss. The net gain or loss recognized incorporates any interest earned on the financial asset. The Company has classified cash and cash equivalents as FVTPL.

Held-to-maturity financial assets:

These assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method. The Company classifies short-term investments as held-to-maturity financial assets.

Receivables:

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period.

The Company has classified accounts receivable and other receivable as receivables.

Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities:

Non-derivative financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date that they are originated. Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. The Company has classified accounts payable and accrued liabilities as non-derivative financial liabilities.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 6

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

(d) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand. The cash on hand is denominated in Canadian dollars (CDN \$), United States dollars (US \$), Australian dollars (AUS \$), New Zealand dollars (NZD \$), Chinese Yuan (RMB ¥), Euros (EUR €), British Pounds (GBP £), and Hungarian Forints (HUF Ft). The Company holds cash on hand with Canadian charter banks, United States chartered banks, Australian chartered banks, Chinese chartered banks and European chartered banks.

(e) Revenue recognition:

The Company generates revenue from the sale of equipment and extended warranty programs (note 16). Revenue from the sale of equipment is recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims. Revenue from sale of software relates mainly to perpetual licenses, which provide the customer with the right to use the licensed products.

Revenues from the sale of extended service programs are recorded as deferred revenue at the time the extended service is invoiced and are recognized on a pro-rata basis over the extended service period.

(f) Inventories:

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price less estimated costs of completion and selling expenses. Cost, which is based on a weighted average, includes expenditures incurred in acquiring stock and bringing it to its existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads attributable to manufacturing, based on normal operating capacity.

(g) Property, plant and equipment:

Property, plant and equipment is measured at cost less accumulated depreciation and impairments. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate. All other repairs and maintenance are charged to the statement of profit or loss during the financial period in which they are incurred.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 7

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

### 3. Significant accounting policies (continued):

The carrying amounts of property, plant and equipment are depreciated from the date of acquisition to their estimated residual value over the estimated useful lives of the assets. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges.

Depreciation is charged from the date of acquisition of an asset and is provided at the following annual rates:

Assets	Method	Rate
Buildings and leasehold improvements	straight-line	4 – 20 years
Computer equipment and software	declining balance	30%
Office and production equipment	declining balance	20% - 30%
Licenses and other assets	straight-line	2 – 10 years

#### (h) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and impairments. The carrying value of intangible assets is amortized over the estimated useful lives based on management's best estimates. Estimates of the useful lives are reassessed annually and any change in estimate is taken into account in the determination of the remaining amortization charges.

Assets	Rate
Trademarks and brands	20 years
Technology	5 – 10 years

#### (i) Goodwill:

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that such carrying value may be impaired.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 8

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

The Company has a single CGU, the agricultural business unit, which represents the lowest level within the Company at which the goodwill is monitored for internal management purposes based on the Company's primary reporting format determined in accordance with IFRS 8, Operating Segments.

(j) Impairment:

Goodwill and intangible assets with indefinite useful lives are not subject to amortization and are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment is determined by assessing the recoverable amount of the assets or cash-generating units to which the asset relates. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of an asset or CGU is the greater of fair value less cost to sell and the value in use.

An impairment loss is 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, including a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

Impairment losses recognized in respect of the CGU are allocated first to reduce the carrying amount of any goodwill of the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. Where intangible assets have been allocated to the CGU and part of the operation within the CGU is disposed of, the intangible assets associated within the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Intangible assets disposed of in such cases are measured based on the relative values of the operation disposed of and the portion of the CGU retained.

An impairment loss in respect of goodwill is not reversed. For assets other than goodwill, an impairment loss recognized in prior periods shall be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount and an impairment loss is reversed, however, the increased carrying amount shall not exceed the carrying value that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 9

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

(k) Research and development:

Expenditures on research activities are recognized under the Research and development line item in the Consolidated Statement of Profit or Loss in the period in which they are incurred. An internally generated intangible asset arising from product development is recognized only if all of the following conditions are met:

- (i) the Company intends to and has sufficient resources to complete development and to use or sell the asset;
- (ii) it is probable that the asset created will generate future economic benefits;
- (iii) the development cost of the asset can be measured reliably; and
- (iv) the product from which the asset arises meets the IFRS criteria for technical and commercial feasibility.

Internally generated intangible assets are amortized on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognized, development expenditure is recognized as an expense in the period in which it is incurred. Capitalized expenses include the cost of material, direct labor, direct overhead and outsourcing costs directly attributable to preparing the asset for its intended use.

(l) Earnings per share:

Basic earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of ordinary shares in issue during the period. Diluted earnings or loss per share represents the profit or loss for the period, divided by the weighted average number of ordinary shares in issue during the period plus the weighted average number of dilutive potential shares resulting from share options where the inclusion of these would not be antidilutive.

(m) Share-based payments:

The Company awards share options to certain directors, officers, employees, consultants and agents of the Company, from time to time, on a discretionary basis subject to certain terms and conditions. Share options are measured at fair value at the date of grant. Fair value is measured by using the Black Scholes option pricing model, taking into account the terms and conditions upon which the equity instruments were granted and also based on management's best estimate of the expected life of such share options. The fair value of such awards is expensed over the vesting period with a corresponding increase in reserve under equity. Upon exercise of share options, proceeds received are credited to share capital.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 10

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

The Company has a restricted share unit ("RSU") plan. The Company may award RSUs to certain directors, officers, employees, key consultants and agents of the Company, from time to time, on a discretionary basis subject to certain terms and conditions. No RSUs have been awarded in the periods 2014 through 2017. In addition, the plan expired in 2017. Accordingly, no RSUs will be awarded in future periods.

The Company also has a restricted share award ("RSA") plan. The Company may award RSAs to certain directors, officers, and employees of the Company, from time to time, on a discretionary basis subject to certain terms and conditions. RSAs are measured at fair value at the date of grant, taking into account the terms and conditions upon which the equity instruments were granted and also based on management's best estimate of the expected life of such restricted share awards. Based on a specified period of service, RSAs under this plan vest over a period of one to four years as the fair value of such awards is expensed over the vesting period with a corresponding increase in reserve under equity. From their issue date, the holders of RSAs have voting rights and are entitled to dividends equivalent to common shareholders.

As of December 31, 2017, 1,765 (2016 – 3,872) RSAs were held by senior management and certain members of the Board of Directors.

#### (n) Income taxes:

Income taxes comprise both current tax and deferred tax. Income tax is recognized in the consolidated statement of profit or loss except to the extent that it relates to items recognized directly in equity. Current income tax is the tax expected to be payable on the taxable profit for the period, using tax rates enacted or substantively enacted by the reporting date.

Deferred taxes are recognized on all temporary differences at the consolidated statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses and other tax assets, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax losses and other tax assets can be utilized. Deferred tax is calculated using the tax rates that are expected to be applied to temporary differences when they reverse, based on tax rates and laws enacted, or substantively enacted, by the reporting date.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 11

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

(o) Provisions:

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimate of the amount of the obligation can be made.

Provisions for obsolete inventory are based on management's best estimates which consider a variety of factors that may affect the carrying values of inventories. These factors include, but are not limited to, market demand, technology and design changes. A provision for warranty is recognized when the underlying products and services are sold. Warranty provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Where the time effect of money is material, significant provision balances are discounted to current values using appropriate pre-tax discount rates. The unwinding of the discount is recorded as finance cost under general and administrative expenses.

(p) Vacation pay:

Employee entitlements to annual leave are recognized as they are earned by the employees. A provision, stated at current cost, is made for the estimated liability at period end.

(q) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, they are discounted to their present value.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 12

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

(r) Leased assets:

Leases of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

Payments made under operating leases are recognized in the consolidated statement of profit or loss on a straight line basis over the term of the lease.

(s) Segment reporting:

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The operating results are reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(t) Restructuring costs:

A provision for restructuring is recognized when it is material, and the restructuring plans have been approved and announced before the reporting date. Restructuring costs are recognized in the consolidated statement of profit or loss within operating income (loss). These costs mainly involve the outsourcing of manufacturing costs, termination and severance benefits, legal and consulting fees, redundancy costs and scrapping of property and equipment as well as other costs that are directly related to the restructuring plan and that provide no benefit to the ongoing operations.

(u) Initial adoption of new standards and interpretations:

The Company has adopted the following amendments to standards, with the date of initial application of January 1, 2017. The nature and effect of the changes are explained below:

(i) Amendments to IAS 12, *Income Taxes*:

In January 2016, the IASB issued amendments to IAS 12, *Income Taxes*, which clarified how entities are to account for deferred tax assets relating to debt instruments measured at fair value. The amended standard was adopted as of January 1, 2017 and had no impact on the financial results of the Company.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 13

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

(v) New standards and interpretations not yet adopted:

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard related to revenue recognition which is effective January 1, 2018. Under the standard, revenue is recognized 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 cumulative effect of initially implementing IFRS 15 as of January 1, 2018 will be applied to contracts that are not complete as of that date under the modified retrospective method. This transition method requires recognition of the cumulative effect of initially applying the new revenue standard via an adjustment to retained earnings as of January 1, 2018. Internal controls and key system functionality are in place such that financial statements will be prepared in accordance with the standard upon adoption.

A majority of the Company's revenue, sales of equipment and software feature codes, will continue to be recognized upon shipment from our facility and upon invoice, respectively. Additionally, revenue from extended service programs will continue to be deferred at the time of invoice and recognized on a pro-rata basis over the extended service period.

The most significant anticipated impact of implementing IFRS 15 relates to our accounting for non-recurring engineering ("NRE") agreements, which has previously not met the criteria for revenue recognition under current standards. These agreements fall into one of three categories, software upgrades, equipment prototype design, and feature code development. Revenue generated from software upgrade NRE will be recognized upon delivery of the software upgrade to the customer. Revenue generated from equipment prototype design and feature code development NRE will be deferred as these agreements are viewed as an option for the future purchase of software or product. Revenue will be 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 will be capitalized as a contract asset as the expenses are incurred, not to exceed contractual NRE invoices. Contract assets related to software upgrades will be fully expensed upon delivery of the software upgrade to customers. Contract assets related to equipment prototype design and feature code development will be expensed on a pro-rata basis as new equipment or feature codes connected with those NRE agreements are purchased.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 14

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

The cumulative effect of IFRS 15 adoption as of January 1, 2018 results in a reduction of retained earnings and creation of both contract liabilities and contract assets, relating to costs expected to be incurred in order to fulfill in process NRE agreements. The cumulative effect of this adjustment on retained earnings is expected to be less than \$100. The ongoing impact of the adoption of IFRS 15 will result in increases in both revenue and expense due largely to NRE agreements, with an immaterial impact to net income on an ongoing basis.

In July 2014, the IASB issued IFRS 9, *Financial Instruments* which was later amended on October 12, 2017. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The amendment is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The intent of the standard is to detail requirements for recognition and measurement, impairment, derecognition and general hedge accounting. The intent of the amendment is to address concerns about how IFRS 9 classifies particular pre-payable financial assets as well as to clarify accounting for financial liabilities following a modification. Neither the standard nor amendment are expected to have a significant impact on the Company's financial results.

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 provides a single lessee accounting model which requires lessees to recognize assets and liabilities for all leases where the term is greater than 12 months. In addition to the short term lease exemption, the standard provides an exemption for low value leases. This 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 Company is currently assessing the impact of the standard on financial results.

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, which clarify the classification and measurement of share-based payment transactions. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. This standard is not expected to have a significant impact on the Company's financial results.

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 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. This standard is not expected to have a significant impact on the Company's financial results.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 15

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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### 3. Significant accounting policies (continued):

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.

### 4. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Derivatives:

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). There were no derivatives held as of December 31, 2017 and 2016.

(b) Share-based payment transactions:

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience of forfeiture rates), and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

(c) Goodwill:

Refer to note 21.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 16

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 5. Cash and cash equivalents:

In US\$

	December 31, 2017	December 31, 2016
Cash on hand		
US \$	\$ 13,452	\$ 12,397
AUS \$	204	216
Other currencies	237	250
Cash and cash equivalents	\$ 13,893	\$ 12,863

## 6. Accounts receivable:

	December 31, 2017	December 31, 2016
Trade	\$ 3,791	\$ 4,336
Other receivable	622	514
Allowance for doubtful accounts	(228)	(74)
	\$ 4,185	\$ 4,776

Included within the December 31, 2017 other receivable line item above is a \$305 income tax receivable related to refundable alternative minimum tax credits paid in prior years. Due to legislation passed on December 22, 2017, the realization of these credits became probable and accordingly, a receivable was recorded. Additional information regarding this legislation may be found in footnote 17. No such receivable is included in the December 31, 2016 other receivable line item above.

Included within the December 31, 2016 other receivable line item above were receivables due from key management personnel totaling \$343 which related to personal income tax withholdings paid by the Company and due at the time of RSA vesting as required by regulatory tax authorities. No such receivable is included in the December 31, 2017 totals above.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 17

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 6. Accounts receivable (continued):

### Aging of receivables that are past due but not impaired:

	December 31, 2017	December 31, 2016
1 to 30 days	\$ 436	\$ 488
31 to 60 days	78	36
61 to 90 days	73	157
Over 90 days	14	193
	\$ 601	\$ 874

### Reconciliation of changes in the allowance for doubtful accounts:

	December 31, 2017	December 31, 2016
Balance beginning of year	\$ 74	\$ 184
Provisions	172	5
Accounts receivable written off	(18)	(115)
	\$ 228	\$ 74

## 7. Inventories:

Inventories include material, labor and manufacturing overhead costs. The components of inventories were as follows:

	December 31, 2017	December 31, 2016
Finished goods	\$ 5,791	\$ 6,446
Raw materials	1,836	1,768
Work in process	—	12
	\$ 7,627	\$ 8,226

During the year ended December 31, 2017, the Company recorded write-downs of finished goods and raw materials to net realizable value in the amount of \$601 (2016 – \$1,044) which was recognized in the cost of sales line item of the consolidated statement of profit or loss.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 18

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 8. Property, plant and equipment:

### Cost

	Building and leasehold improvements	Computer equip. and software	Office and production equip.	Licenses and other assets	Total
Balance at December 31, 2016	\$ 2,628	\$ 1,738	\$ 1,673	\$ 1,384	\$ 7,423
Additions (reimbursements)	7	143	172	102	424
Disposals	(9)	(56)	(9)	–	(74)
Balance at December 31, 2017	\$ 2,626	\$ 1,825	\$ 1,836	\$ 1,486	\$ 7,773

### Accumulated depreciation

Balance at December 31, 2016	\$ 1,322	\$ 704	\$ 1,160	\$ 1,061	\$ 4,247
Depreciation	158	258	141	124	681
Disposals	(9)	(37)	(8)	–	(54)
Balance at December 31, 2017	\$ 1,471	\$ 925	\$ 1,293	\$ 1,185	\$ 4,874

### Carrying amount

Balance at December 31, 2016	\$ 1,306	\$ 1,034	\$ 513	\$ 323	\$ 3,176
Balance at December 31, 2017	\$ 1,155	\$ 900	\$ 543	\$ 301	\$ 2,899

### Cost

	Buildings and leasehold improvements	Computer equip. and software	Office and production equip.	Licenses and other assets	Total
Balance at December 31, 2015	\$ 2,636	\$ 1,624	\$ 1,707	\$ 1,308	\$ 7,276
Additions (reimbursements)	12	397	37	76	522
Disposals	(20)	(283)	(71)	–	(374)
Balance at December 31, 2016	\$ 2,628	\$ 1,738	\$ 1,673	\$ 1,384	\$ 7,423

### Accumulated depreciation

Balance at December 31, 2015	\$ 1,184	\$ 611	\$ 1,062	\$ 934	\$ 3,791
Depreciation	158	275	147	127	707
Disposals	(20)	(182)	(49)	–	(251)
Balance at December 31, 2016	\$ 1,322	\$ 704	\$ 1,160	\$ 1,061	\$ 4,247

### Carrying amount

Balance at December 31, 2015	\$ 1,452	\$ 1,013	\$ 645	\$ 374	\$ 3,484
Balance at December 31, 2016	\$ 1,306	\$ 1,034	\$ 513	\$ 323	\$ 3,176

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 19

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 8. Property, plant and equipment (continued):

During 2017 and 2016, the Company disposed of fixed assets no longer required for the ongoing operations of the business for a loss of \$19 and a loss of \$111, respectively, noted in the consolidated statement of profit or loss.

## 9. Intangible assets:

### Cost

	Trademarks and brands	Technology	Total
Balance at December 31, 2016	\$ 2,145	\$ 12,203	\$ 14,348
Additions	–	–	–
Balance at December 31, 2017	\$ 2,145	\$ 12,203	\$ 14,348

### Accumulated amortization

Balance at December 31, 2016	\$ 1,245	\$ 1,980	\$ 3,225
Amortization	100	1,167	1,267
Balance at December 31, 2017	\$ 1,345	\$ 3,147	\$ 4,492

### Carrying amount

Balance at December 31, 2016	\$ 900	\$ 10,223	\$ 11,123
Balance at December 31, 2017	\$ 800	\$ 9,056	\$ 9,856

### Cost

	Trademarks and brands	Technology	Total
Balance at December 31, 2015	\$ 2,145	\$ 12,200	\$ 14,345
Additions (translation)	–	3	3
Balance at December 31, 2016	\$ 2,145	\$ 12,203	\$ 14,348

### Accumulated amortization

Balance at December 31, 2015	\$ 1,140	\$ 813	\$ 1,953
Amortization	105	1,167	1,272
Balance at December 31, 2016	\$ 1,245	\$ 1,980	\$ 3,225

### Carrying amount

Balance at December 31, 2015	\$ 1,004	\$ 11,387	\$ 12,391
Balance at December 31, 2016	\$ 900	\$ 10,223	\$ 11,123

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 20

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 9. Intangible assets (continued):

Amortization of \$1,167 (2016 – \$1,167) and \$100 (2016 – \$105) is included within the Research and development and Sales and marketing line items, respectively, within the Consolidated Statements of Profit or Loss.

## 10. Provisions:

	Warranty	Restructuring	Total
Balance at December 31, 2016	\$ 529	\$ 16	\$ 545
Provisions made during the year	476	–	476
Provisions used	(392)	–	(392)
Balance at December 31, 2017	\$ 613	\$ 16	\$ 629

The provision for warranties relates mainly to products sold during the years ended December 31, 2017, 2016 and 2015. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities. The Company expects to incur the majority of the warranty liability over the next three years.

The provision for restructuring relates to a targeted workforce reduction of 20% which was announced by the Company on December 30, 2015. The reduction was planned for and took place largely in 2016, though some reduction will flow into 2018. This reduction and related restructuring provision relates to an internal review of operations post Novariant acquisition and post integration of Novariant into AgJunction, whereby a duplication of resources was identified.

## 11. Finance lease:

The Company had certain equipment under capital lease which expired in 2016. Lease payments are as follows:

	2017	2016
2016	\$ –	\$ 1
2017	–	–
Minimum lease payments	–	1
Less: interest portion	–	–
Net minimum lease payments	–	1
Less: current portion	–	1
Long term portion	\$ –	\$ –

Principal and interest payments on leased equipment during the year was nil.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 21

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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## 12. Share capital:

(a) Authorized:

Unlimited common shares

Unlimited first preferred shares, issuable in series

Unlimited second preferred shares, issuable in series

(b) Issued:

Issued share capital consists of 116,878 common shares at \$146,896.

(c) Par value:

No par value.

(d) The Company has a share option plan, whereby options to purchase common shares may be issued at market price to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. The Company also has a restricted share award plan, whereby common shares may be issued at market price to directors, officers, and employees of the Company subject to certain terms and conditions. The Company's shareholders have approved the combined issuance of total share options and restricted share awards with a rolling maximum limit equal to 13% of outstanding common shares. Share options granted vest over a period of two to five years and expire at various dates through to 2020. Restricted share awards granted vest over a period of one to four years and have no expiration date.

(e) During the year ended December 31, 2017, the Company recorded \$491 (2016 – \$620) as share based compensation expense relating to options and \$321 (2016 - \$350) relating to restricted share awards for total compensation expense of \$812 (2017 - \$970).

(f) The grant date fair value of share options granted is estimated by using the Black-Scholes call option pricing model. 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 following assumptions were used in determining the fair value of the September 2017 share option issuances: Company share price at issuance; share option exercise price; weighted average volatility of 55-58%; interest rate of 1.22-1.50%; and weighted average expected life of 4.0 years.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 22

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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## 12. Share capital (continued):

The following assumptions were used in determining the fair value of the January 2016 share option issuances: Company share price at issuance; share option exercise price; weighted average volatility of 49%; interest rate of 0.63%; and weighted average expected life of 3.7 years. The following assumptions were used in determining the fair value of the May 2016 share option issuances: Company share price at issuance; share option exercise price; weighted average volatility of 39%; interest rates of 0.67-0.80%; and weighted average expected life of 3.4 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 January 2017 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. The following assumptions were used in determining the fair value of the September 2017 grants: Company share price at issuance; weighted average volatility of 52-53%; interest rate of 1.22-1.27%; and weighted average expected life of 3.0 years. The following assumptions were used in determining the fair value of the December 2017 grants: Company share price at issuance; weighted average volatility of 56%; interest rate of 1.41%; and weighted average expected life of 3.0 years.

The following assumptions were used in determining the fair value of the January 2016 grants: Company share price at issuance; weighted average volatility of 56%; interest rate of 0.48%; and weighted average expected life of 3.6 years. The following assumptions were used in determining the fair value of the May 2016 RSA grants: Company share price at issuance; weighted average volatility of 64%; interest rate of 0.67%; and weighted average expected life of 2.5 years.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 23

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 12. Share capital (continued):

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

<i>(Share price in CAD)</i>	December 31, 2017		December 31, 2016	
	Number Options	Weighted average exercise price	Number options	Weighted average exercise price
Total options outstanding, beginning of period	7,136	\$ 0.66	4,435	\$ 0.66
Granted	1,847	0.54	3,338	0.67
Exercised	–	–	(45)	0.63
Expired	(1,574)	0.70	(592)	0.77
Share options outstanding, end of period	7,409	\$ 0.63	7,136	\$ 0.66
Exercisable at year end	2,527	\$ 0.64	2,672	\$ 0.68

<i>(Share price in CAD)</i>	Options outstanding			Options exercisable		
	Range of exercise prices outstanding	Number outstanding at December 31, 2017	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2017	Weighted average exercise price
\$0.50 – 1.00	7,363	40	\$ 0.63	2,490	\$ 0.63	
1.01 – 1.12	46	12	1.12	37	1.12	
\$0.50 – 1.12	7,409	40	\$ 0.63	2,527	\$ 0.64	

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 24

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 12. Share capital (continued):

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

<i>(Share price in CAD)</i>	December 31, 2017		December 31, 2016	
	Number RSAs	Weighted average grant price	Number RSAs	Weighted average grant price
Total RSAs outstanding, beginning of period	4,132	\$ 0.60	4,046	\$ 0.63
Granted	812	0.52	1,161	0.50
Cancelled	(67)	0.67	(206)	0.51
Vested	(2,597)	0.59	(869)	0.62
RSAs outstanding, end of period	2,280	\$ 0.53	4,132	\$ 0.60

The restricted share awards outstanding as of December 31, 2017 have a weighted average remaining vesting life of 20 (2016 – 33) months and vest over the years 2018 through 2020.

- (g) On June 27, 2017, the Company repurchased and returned to treasury for cancellation 7,853 of its common shares under an arm's length private transaction for \$1,767.

## 13. Operating leases:

The Company is committed to annual minimum operating lease payments, excluding tenant-operating costs, of:

	December 31, 2017	December 31, 2016
Within 1 year	\$ 524	\$ 516
1 to 5 years	1,369	1,316
After 5 years	96	322
Total	\$ 1,989	\$ 2,154

The Company leases a number of buildings for its operations under operating leases. The leases typically run for periods of 5-10 years, with options to renew the lease after that date. Lease payments are increased in certain situations to reflect market conditions. Lease payments recognized as an expense during the year amount to \$634 (2016 – \$462).

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 25

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 14. Expenses by nature from continuing operations:

Operating results include the following items:

	2017	2016
Salaries and employee benefits	\$ 15,864	\$ 14,882
Defined contribution expenses	360	364
Share based payment expenses	812	969
Directors fees, cash portion	173	165
Amortization and depreciation expense	1,948	1,978
Consulting expenses	2,321	1,757
Travel and related expenses	1,559	1,339
Software, information technology and licensing expenses	707	895
Legal expenses	498	583
Lease payments recognized as expense	634	462
Advertising and promotional expenses	990	858
Insurance expense	343	391
Communication expenses	249	264
External audit fees	272	289
Public company expenses	232	264
Net research and development project specific costs	(217)	(125)
Other corporate overhead expenses	1,639	968
Inventories recognized as costs of sales	21,223	19,007
Other costs of sales	3,130	3,854
	\$ 52,737	\$ 49,164

## 15. Loss per share:

The calculation of basic and diluted (loss) income per share from operations was based on the loss attributable to ordinary shareholders of \$2,976 (2016 – loss of \$18,219).

At year end, weighted-average number of shares outstanding used to calculate basic loss per share was as follows:

	2017	2016
Opening balance January 1	124,074	122,829
Effect of share options exercised	–	11
Purchase and cancellation of common shares	(4,023)	–
Issue of restricted share awards, net	397	825
Issue of common shares	–	108
Ending balance December 31	120,448	123,773

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 26

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 15. Loss per share (continued):

At year end, weighted-average number of shares outstanding used to calculate diluted loss per share was as follows:

	2017	2016
Opening balance January 1	124,074	122,829
Effect of share options exercised	–	11
Purchase and cancellation of common shares	(4,023)	–
Issue of restricted share awards, net	397	825
Issue of common shares	–	108
Effect of dilutive share options not exercised	709	–
Ending balance December 31	121,157	123,773

At December 31, 2016, the conversion of 45 share options resulted in additional common shares of an equal amount that are included in the calculations of basic and diluted loss per share. No share options were exercised in 2017. At December 31, 2017, 6,739 share options (2016 – 7,136) were excluded from the diluted weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

## 16. Entity-wide disclosure:

Revenue by operating segment:

	2017	2016
Agriculture	\$ 46,781	\$ 42,264

Revenue by geographic region:

	2017	2016
Americas	\$ 26,428	\$ 24,479
Asia-Pacific (APAC)	2,472	4,663
Europe, the Middle East, and Africa (EMEA)	17,881	13,122
	\$ 46,781	\$ 42,264

In 2017, the Company noted two customers each individually account for over 10 percent of Company total revenue. One customer approximates 31% or \$14,277 of total revenue and is included in the EMEA geographic region information above. The other customer approximates 25% or \$11,619 of total revenue and is included in the Americas geographic region. In 2016, two customers each individually accounted for over 10 percent of total revenue. One customer approximated 26% or \$10,905 of total revenue and is included in the EMEA geographic region information above. The other customer approximated 23% or \$9,569, of total revenue and is included in the Americas geographic region information above.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 27

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 16. Entity-wide disclosure (continued):

Non-current assets by geographic region:

	2017	2016
Americas	\$ 12,794	\$ 14,341
Asia-Pacific (APAC)	104	101
	\$ 12,898	\$ 14,442

## 17. Income taxes:

The Company is taxable in multiple jurisdictions, each with varying tax rates, tax regulations, and tax structures. This results in a blended effective income tax rate. Accordingly, the income tax expense recorded on the Consolidated Statements of Profit or Loss varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 27% (2016 – 27%). The Rate Reconciliation schedule below summarizes these differences.

Rate reconciliation of effective tax rate:

	2017	2016
Expected income tax (recovery)	\$ (799)	\$ (4,919)
Increase (decrease) resulting from:		
Change in unrecognized deferred tax assets	524	4,378
Nondeductible expenses	367	1,824
Effective tax rates differences by jurisdictions	(77)	(1,283)
Recognition of previously unrecognized deferred tax assets	(305)	–
Income tax (recovery)	\$ (290)	\$ –

For the year ended December 31, 2017, a \$305 income tax benefit was recognized in the income tax benefit line item of the consolidated statement of profit or loss. This income tax benefit relates to previously unrecognized deferred tax assets generated from prior year US alternative minimum tax (AMT) credits. The recognition of AMT credits came pursuant to the December 22, 2017 enactment of US legislation, H.R.1, An Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018. Within this legislation, section 12002 made 50 percent of AMT credits refundable over the years 2018 through 2021. In addition, this legislation modified net operating loss deductions and reduced corporate tax rates from a graduated set of rates with a maximum of 35 percent to a flat rate of 21 percent. Accordingly, a rate of 21 percent was used in the Company's 2017 income tax and net operating loss calculations while a rate of 34 percent was used in the prior year.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 28

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

## 17. Income taxes (continued):

Unrecognized deferred tax assets and liabilities:

No portion of the Company's net deferred tax assets has been recorded in these consolidated financial statements. The components are as follows:

December 31, 2017	Asset (Liability)			Total
	Canada	United States	Australia	
Net operating losses	\$ 2,731	\$ 12,405	\$ 2,142	\$ 17,278
Research and development tax credits	2,347	5,753	—	8,100
Property and equipment	62	90	2	154
Share issue costs	27	—	—	27
Goodwill	—	1,859	—	1,859
Intangibles	(14)	(1,024)	—	(1,038)
Reserves	110	1,797	167	2,074
Deferred revenue	—	21	—	21
Inventory	—	493	—	493
Charitable contributions	—	3	—	3
Related party accrued interest	—	92	—	92
Unrealized foreign exchange loss (gain)	71	(1)	—	70
	\$ 5,334	\$ 21,488	\$ 2,311	\$ 29,133

December 31, 2016	Asset (Liability)			Total
	Canada	United States	Australia	
Net operating losses	\$ 2,487	\$ 18,000	\$ 1,875	\$ 22,362
Research and development tax credits	2,286	5,753	—	8,039
Property and equipment	58	184	(2)	240
Share issue costs	12	—	—	12
Goodwill	—	3,347	—	3,347
Intangibles	(16)	(1,659)	—	(1,675)
Reserves	89	2,381	143	2,613
Deferred revenue	—	83	—	83
Inventory	—	692	—	692
Charitable contributions	—	3	—	3
Related party accrued interest	—	143	—	143
Unrealized foreign exchange loss (gain)	117	(3)	—	114
AMT credits	—	305	—	305
	\$ 5,033	\$ 29,229	\$ 2,016	\$ 36,278

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 29

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 17. Income taxes (continued):

The net operating loss carry-forwards as of December 31, 2017 reflected in the unrecognized deferred tax assets will expire as follows:

	Net operating losses
United States:	
2023	\$ 346
2024	526
2025 and beyond	48,860
	<u>\$ 49,732</u>
Canada:	
2028 and beyond	<u>\$ 10,117</u>
Australia:	
No expiry date	<u>\$ 7,139</u>

## 18. Financial instruments and financial risk management:

The Company is exposed to various financial risks through its financial instruments. The nature of these instruments and the Company's operations expose the Company to the following risks:

### (a) Credit risk:

Credit risk reflects the risk that the Company may be unable to collect amounts due to the Company from customers for its products or for other transactions that may be entered into by the Company. The extent of the risk depends on the credit quality of the party from which the amount is due.

The Company employs established credit approval and monitoring practices to mitigate this risk, including reviewing the creditworthiness of new customers to establish credit limits, monitoring customer payment performance and, where considered appropriate, reviewing the financial condition of its existing customers and other debtors. The Company establishes an allowance for doubtful accounts based upon individual account assessment along with the credit risk of its customers, historical trends and economic circumstances.

### (b) Interest rate risk:

The Company is exposed to interest rate risk on cash balances or term deposits earning interest income and to the extent that it may draw on its operating line of credit or carry other forms of debt which calculate interest as a function of variable interest rates. At December 31, 2017, the Company does not carry material liabilities that are exposed to variable interest rates.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 30

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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## 18. Financial instruments and financial risk management (continued):

### (c) Liquidity risk:

The Company may be exposed to liquidity risk if it is unable to collect its trade accounts receivable balances on a timely basis, which in turn could impact the Company's ability to meet commitments to creditors.

The Company manages its liquidity risks by carrying a target level of cash by maintaining a conservative capital structure, by prudently managing its credit risks and by maintaining sufficient capacity within its credit facilities to meet any near-term liquidity requirements.

Approximate remaining contractual obligations at year end:

	Within 1 year	1 to 5 years	After 5 years
Accounts payable and accrued liabilities	\$ 5,649	\$ –	\$ –
Operating leases (note 13)	524	1,369	96
	\$ 6,173	\$ 1,369	\$ 96

### (d) Foreign exchange risk:

The Company is exposed to foreign exchange risk primarily in the following ways:

- i. Cash flow – A significant portion of the Company's revenues and expenses are denominated in US dollars, however certain of its expenses are denominated in Canadian dollars and Australian dollars.
- ii. Working capital – The Company has a US dollar measurement or functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in Canadian dollars, Australian dollars, Euros, British Pounds and Hungarian Forints. At year end, working capital denominated in Canadian dollars was \$1,391 (1,749 CAD). A 1% change in Canadian to US dollar exchange rate will impact net income by approximately \$14 (17 CAD). At year end, working capital denominated in Australian dollars, Euros, British Pounds, Hungarian Forints, and Chinese Yuan was not material.

The Company does not use forward contracts for trading or speculative purposes. Foreign exchange contracts are recorded at fair value with changes in fair value recognized through earnings and are included in "Foreign exchange gain (loss)" in the consolidated statement of profit or loss. There were no foreign exchange contracts outstanding at December 31, 2017.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 31

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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## 18. Financial instruments and financial risk management (continued):

(e) Fair value of 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).

The Company records cash and cash equivalents at fair value each reporting period by using "Level 1" under fair value hierarchy.

As of year end, carrying values of financial assets and liabilities approximate fair value.

## 19. Capital management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to seek to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal structure to reduce the cost of capital and to facilitate the growth strategy of the Company.

The Company monitors its capital management through analysis of near-term and mid-term cash flow expectations to ensure an adequate amount of liquidity and through the monthly review of financial results and business expectations. The Company considers the shareholders' equity to be the capital of the Company.

Based upon the dynamic nature of the technology markets that the Company engages in, and the low level of tangible assets required, the capital strategy is to carry a very low level of debt (including capital lease). As of December 31, 2017, the Company does not have covenants that require a maximum debt to equity ratio, and the ratio of debt to equity has not exceeded 5% at year-end in each of the last four years.

In February 2014, the Company entered into an agreement for a credit facility, which provides up to a maximum of \$3 million in an operating line of credit. The operating line of credit has been renewed annually and currently bears interest at the bank's prime rate minus 1.0%. The operating line of credit matures on May 19, 2018. No amount has been drawn from the facility in any year.

Where considered appropriate by Management and/or the Board of Directors, the Company may incur and carry long-term debt from time to time as a result of expansion activities, including acquisitions.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 32

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

## 20. Related party transactions:

The Company has related party relationships with its subsidiaries, key management personnel, and Board of Directors. Key management personnel include the Company's Chief Executive Officer, Chief Financial Officer and the top four senior officers for 2017 and 2016.

Key management personnel and Board member compensation:

	2017	2016
Salaries and benefits	\$ 1,633	\$ 1,931
Share based compensation	629	920
	\$ 2,262	\$ 2,851

The Board of Directors and Executive Officers participate in the Company's share option and restricted stock unit programs (note 12). During 2017, 1,497 options and 417 RSAs were granted to such persons (2016 - 3,038 options and 801 RSAs). Share options outstanding for key management personnel and Board members as of December 31, 2017 totaled 6,463 (2016 - 6,219). Restricted share awards outstanding for key management personnel and Board members as of December 31, 2017 totaled 1,765 (2016 - 3,872).

Key management personnel and Board member transactions:

As of December 31, 2017, key management personnel, Board members and their related parties control 30.2% (2016 - 29.3%) of the voting shares of the Company.

A number of Board members, or their related parties, hold positions in other companies that result in them having control or significant influence over these companies.

In 2016, Jonathan Ladd, 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.

For the period January 1, 2017 through December 31, 2017, the Company incurred short term compensation expense in the amount of \$178 (2016 - \$154) for duties performed by Mr. Ladd as well as \$47 (2016 - \$45) 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, \$21 was unpaid as of December 31, 2017 (2016 - \$19) and is located within the Accounts payable and accrued liabilities line item of the 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 Consolidated Statement of Profit or Loss for year ended December 31, 2017 totals \$55 (2016 - \$82). Information relating to calculation of fair value can be found in note 14(f).

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 33

Years ended December 31, 2017 and 2016  
(Expressed in U.S. thousand dollars, except where noted)

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## 20. Related party transactions (continued):

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

## 21. Goodwill impairment:

The Company carried goodwill of \$143 at December 31, 2016 and December 31, 2017. For the purpose of impairment testing, goodwill is allocated to the Company's only cash generating unit (CGU), the agriculture CGU. In accordance with IFRS, goodwill is assessed for impairment at least annually, and more often if an event or circumstance indicates an impairment may have occurred.

At September 30, 2016, the closing price of the Company's common shares was \$0.72 (CAD) per share or \$0.55 (USD) per share. As such, total market value of the Company's common shares was \$68.1 million (USD) as of September 30, 2016, which was above the Company's total equity prior to impairment charges, of \$50.5 million (USD). While this information indicates recoverability, management tested goodwill for impairment as of September 30, 2016 for reasons described below.

From January, 2016 through May, 2016 the fair value less cost to sell of the Company had been higher than the value in use. There were no goodwill impairment indicators during that time. However, for the three months ended September 30, 2016, the company experienced lower than expected sales which was driven by continued decline of the agriculture market. In turn, the Company experienced a decline in its fair value less cost to sell.

In addition to the above, limited trading volume of the Company's shares caused management to conclude the Company's value in use was more relevant in its assessment of goodwill than the Company's fair value less cost to sell.

As of September 30, 2016, the Company's value in use was determined using a discounted cash flow model, consistent with recognized valuation methods. The process of determining the recoverable amount is subjective and requires management to exercise significant judgment and assumptions. The most significant assumptions underlying the model prepared by management include: revenue, revenue growth, gross margins, operating expenses, income taxes, weighted average cost of capital, and capital expenditures. Significant factors impacting these assumptions include estimates of future market share, competition, technological developments, interest rates and market trends. The assumptions incorporated into the discounted cash flow model reflect management's long-term view of the company's business and the market in which it competes. The discount rate used in management's analysis as of September 30, 2016 was 13.0%.

# AgJunction Inc.

Notes to the Consolidated Financial Statements, page 34

Years ended December 31, 2017 and 2016

(Expressed in U.S. thousand dollars, except where noted)

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## **21. Goodwill impairment (continued):**

Continued decline of the Agriculture industry in the near term was factored into the discounted cash flow model via beginning sales base and lower growth rates than those used in prior year's goodwill impairment estimates which impacted estimated future cash flows. Management believes the estimates and assumptions used in the impairment assessment are reasonable and in line with available market information but notes variations in such assumptions could result in materially different calculations of fair value and determinations of whether or not an impairment is indicated.

Management's value in use assessment as of September 30, 2016 concluded goodwill was impaired in the amount of \$11,301 as the recoverable amount, the greater of net fair value less cost to sell and value in use, was less than the carrying amount. Accordingly, an impairment loss was recorded for the difference between the carrying amount of the goodwill and its recoverable amount. Prior to the test for impairment, the Company carried goodwill of \$11,444. Accumulated goodwill impairment losses since company inception total \$48,157.

As of December 31, 2017, the Company assessed goodwill for impairment using a discounted cash flow model in order to determine value in use. As was the case at September 30, 2016, the most significant assumptions underlying the model prepared by management include: revenue, revenue growth, gross margins, operating expenses, income taxes, weighted average cost of capital, capital expenditures, estimates of future market share, competition, technological developments, interest rates and market trends. The assumptions incorporated into the discounted cash flow model reflect management's long-term view of the company's business and the market in which it competes. The discount rate used in management's analysis as of December 31, 2017 was 14.0%. Management's value in use assessment as of December 31, 2017 concluded goodwill totaling \$143 was not impaired.

## **22. 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 \$3,000 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 Consolidated Statements of Profit or Loss.

## **23. Subsequent events:**

The Company evaluated subsequent events through March 21, 2018, the date the consolidated financial statements were authorized to be issued by the Company's Board of Directors and has determined that there were no subsequent events through the evaluation date which merit disclosure.