# Interim Management's Discussion and Analysis

Three and six month periods ended June 30, 2018

The following discussion and analysis is effective as of August 10, 2018 and should be read together with our unaudited consolidated interim financial statements and accompanying notes for the three and six month periods ended June 30, 2018. Additional information related to AgJunction Inc., including the Company's Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com. All amounts stated in this Management Discussion and Analysis ("MD&A") are in US dollars unless otherwise stated.

**Overview**

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

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

**Economic and Market Trends**

*Agriculture Markets*

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

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

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

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

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

**Summary of Quarterly Results**

| (000's) | 30-Sep 2016 | 31-Dec 2016 | 31-Mar 2017 | 30-Jun 2017 | 30-Sep 2017 | 31-Dec 2017 | 31-Mar 2018 | 30-Jun 2018 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $6,657 | $8,224 | $14,573 | $13,341 | $8,978 | $9,889 | $15,774 | $13,776 |
| Gross profit | 2,190 | 2,884 | 6,827 | 5,515 | 3,229 | 3,850 | 6,781 | 5,418 |
| | 33% | 35% | 47% | 41% | 36% | 39% | 43% | 39% |
| Expenses: | | | | | | | | |
| Research and development | 1,756 | 2,003 | 2,083 | 1,861 | 1,752 | 2,514 | 2,979 | 3,008 |
| Sales and marketing | 1,570 | 1,641 | 1,903 | 1,960 | 2,117 | 1,796 | 2,165 | 1,984 |
| General and administrative | 1,939 | 2,055 | 2,226 | 2,218 | 2,418 | 2,529 | 2,679 | 2,757 |
| | 5,265 | 5,699 | 6,212 | 6,039 | 6,287 | 6,839 | 7,823 | 7,749 |
| Operating income (loss) | (3,075) | (2,815) | 615 | (524) | (3,058) | (2,989) | (1,042) | (2,331) |
| Goodwill impairment | 11,301 | - | - | - | - | - | - | - |
| Foreign exchange (gain) loss | 7 | (3) | (4) | (22) | 43 | (13) | (49) | 28 |
| Interest and other (income) loss | (21) | - | 1 | 1 | (20) | - | (5) | (5) |
| Loss (gain) on disposal of property, plant and equipment | (5) | 86 | - | 18 | 1 | - | (4) | (9) |
| Other Income | - | - | (3,000) | - | - | - | - | - |
| | 11,282 | 83 | (3,003) | (3) | 24 | (13) | (58) | 14 |
| Net income (loss) before income tax | (14,357) | (2,898) | 3,618 | (521) | (3,082) | (2,976) | (984) | (2,345) |
| Income tax | - | - | - | 19 | - | (309) | - | - |
| Net income (loss) | (14,357) | (2,898) | 3,618 | (540) | (3,082) | (2,667) | (984) | (2,345) |
| Earnings (loss) per common share: | | | | | | | | |
| Basic and diluted | ($0.12) | ($0.02) | $0.03 | $0.00 | ($0.02) | ($0.02) | ($0.01) | ($0.02) |
| *Weighted Average Diluted Shares* | 124,848 | 123,773 | 124,307 | 128,268 | 124,475 | 121,157 | 118,338 | 126,287 |

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

**For the Quarter Ended**

| (000's) | 30-Sep 2016 | 31-Dec 2016 | 31-Mar 2017 | 30-Jun 2017 | 30-Sep 2017 | 31-Dec 2017 | 31-Mar 2018 | 30-Jun 2018 |
|---|---|---|---|---|---|---|---|---|
| Americas | $4,581 | $4,677 | $8,254 | $7,085 | $5,549 | $5,540 | $8,481 | $6,761 |
| APAC* | 584 | 546 | 1,026 | 822 | 222 | 402 | 741 | 178 |
| EMEA** | 1,492 | 3,001 | 5,293 | 5,434 | 3,207 | 3,947 | 6,552 | 6,837 |
| | $6,657 | $8,224 | $14,573 | $13,341 | $8,978 | $9,889 | $15,774 | $13,776 |

* APAC – Asia Pacific
** EMEA – Europe, the Middle East, and Africa

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

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

2. The adoption of advanced technology as it relates to precision farming is transitioning from historically being an aftermarket business to an original equipment manufacturer (OEM) business. The outlook for the Company's products in the OEM channel remains uncertain based on the speed with which each region will adopt this model.

## Quarter Ended June 30, 2018 versus Quarter Ended June 30, 2017

### *Management Summary*

In the second quarter of 2018 revenue were $13.8 million, a slight increase compared to the same quarter a year ago. While revenue increased slightly, the company has continued to invest in Research and Development, Sales and Marketing for development of new products and to capture market share as the agricultural industry recovers. The increased investment drove net income down from the prior year despite the increase in revenue, however management believes these investments are necessary as we position the company for future growth. Additional details are provided in the sections below.

### *Revenue*

For the quarter ended June 30, 2018, revenue was $13.8 million representing an increase of 3% from $13.3 million in the same period of 2017.

| (000's) | **2018** | **2017** | **Change** |
|---|---|---|---|
| Agriculture | $ 13,776 | $ 13,341 | 3% |

Revenue by geographic region:

| (000's) | **2018** | **2017** | **Change** |
|---|---|---|---|
| Americas | $ 6,761 | $ 7,085 | (5%) |
| APAC | 178 | 822 | (78%) |
| EMEA | 6,837 | 5,434 | 26% |
| | $ 13,776 | $ 13,341 | 3% |

In the second quarter of 2018, revenue in the Americas decreased by $0.3 million or 5%, mostly due to decreased demand in Canada resulting in a decline of $0.3 million. Revenue in APAC saw a decrease of $0.6 million due to decreased demand in Australia and China. Revenue in the EMEA region increased $1.4 million largely due to increased demand in France and Germany.

Revenue in the Americas represented 49% of total revenue in the second quarter of 2018 compared to 53% in the second quarter of 2017. APAC revenue represented 1% of total revenue in the second quarter of 2018 down from 6% in the second quarter of 2017. EMEA revenue represented 50% of total revenue for the period, up from 41% in the same period in 2017.

### *Gross Profit*

Gross profit was $5.4 million for the second quarter of 2018 and $5.5 million for 2017. Gross profit, as a percentage of revenue, were 39% in 2018 compared to 41% in 2017. The two percent decrease in gross profit over the same quarter of the prior year is attributed to 5% increase in material cost of the product mix sold offset by favorability from the absorption of compensation costs allocated to Cost of revenue and the reduction of warranty and obsolescence reserves.

### *Expenses*

Total operating expenses for the quarter were $7.7 million in 2018, up by 28% or $1.7 million from $6.0 million in 2017. A break out of expenses by line item follows.

Research and development expenditures of $3.0 million increased from $1.9 million in 2017 representing an increase of $1.1 million or 62%. The expense increase is related to investment in product development resulting in increased compensation and project costs, as we continue to invest in product portfolio to meet future market needs.

Sales and marketing expenses for the period were $2.0 million in 2018, with little to no change from $2.0 million in 2017.

General and administrative expenses for the second quarter of 2018 were $2.8 million compared to $2.2 million in 2017 representing an increase of $0.6 million or 24%. This increase is largely due to a $0.2 million increase in employee compensation costs and a $0.4 million increase in legal fees related to litigations.

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

In the second quarter of 2018, the Company recorded net interest and other income of $5 thousand compared to $1 thousand of interest expense in the second quarter of 2017. The Company earns interest income on certain cash balances which is offset by interest paid.

Also, during the second quarter of 2018, the Company realized a foreign exchange loss of $28 thousand compared to a gain of $22 thousand during the same quarter in 2017. Foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar working capital.

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

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

The Company recognized a gain on the disposal of property, plant and equipment in the second quarter of 2018 totaling $9 thousand. A loss of $18 thousand associated with property, plant and equipment was reported in the second quarter of 2017.

### *Income Taxes*

The Company did not recognize any income tax benefit or expense in the second quarter of 2018, while income tax expense totaling $19 thousand was recognized in the second quarter of 2017.

### *Net Income (Loss)*

In the second quarter of 2018, the Company realized a net loss from continuing operations of $2.3 million or ($0.02) per share (basic and diluted), compared to a net loss from continuing operations of $0.5 million or $0.00 per share (basic and diluted) in the second quarter of 2017.

## Six Months Ended June 30, 2018 versus Six Months Ended June 30, 2017

### *Revenue*

Revenue during the six months ended June 30, 2018 and 2017 was as follows:

| | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|
| Agriculture | $ 29,550 | $ 27,914 | 6% |

Revenue by region for the first half periods of 2018 and 2017 are as follows:

| | YTD 2018 | YTD 2017 | Change |
|---|---|---|---|
| Americas | $ 15,242 | $ 15,339 | (1%) |
| APAC | 919 | 1,848 | (50%) |
| EMEA | 13,389 | 10,727 | 25% |
| | $ 29,550 | $ 27,914 | 6% |

Americas revenue for the six months ended June 30, 2018 was down $0.1 million or 1% from the same period of 2017. The revenue decrease in the APAC region of $0.9 million or 50% from the previous period is due to decreased demand in China and Australia of $0.7 and $0.5 million, respectively. Those declines were offset by increased revenue of $0.3 million in Japan. Revenue in the EMEA region increased $2.7 million due largely to increased demand in France and Germany of $2.3 and $0.4 million, respectively.

### *Gross Profit*

Gross profit for the six months ended June 30, 2018 was $12.2 million (41%) compared to $12.3 million (44%) in the same period of 2017. The 3% decrease in gross profit over the same six months of the prior year is attributed to a 5% increase in material cost of the product mix sold offset by favorability from the absorption of compensation costs allocated to Cost of revenue and the reduction of obsolescence reserve.

### *Expenses*

Operating expenses were $15.6 million in the first half of 2018, up $3.3 million or 27% from $12.3 million in the first half of 2017. A break out of expenses by line item follows.

Research and development expenses were $6.0 million for the period, representing an increase of $2.1 million or 52% from $3.9 million in the first six months 2017. The expense increase is related to investment in product development, resulting in both increased compensation and project costs as we continue to invest in our product portfolio to meet future market needs.

Sales and marketing expenses of $4.1 million increased by $0.2 million (7%) from $3.9 million in the first six months of 2017. This increase relates to increased marketing efforts and employee compensation costs.

General and administrative expenses of $5.4 million increased $1.0 million, or 22%, from $4.4 million in the same period of 2017. This $1.0 million increase relates to $0.4 million in increased legal fees related to litigations, compensation cost increases of $0.3 million and amounts paid to external consultants of $0.2 million and service fees of $0.1 million related to phase 2 of the ERP implementation.

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

Interest and other income in the six months ended June 30, 2018 was $10 thousand versus interest expense of $3 thousand in the same period of 2017. For the first half of 2017, the company recorded $3.0 million of other income associated with its entry into a strategic agreement with Hemisphere GNSS, Inc. (Hemisphere), a world-class provider of global navigation satellite systems (GNSS) technology, whereby the Company received a one-time payment of $3.0 million in exchange for releasing Hemisphere from a license restriction that prevented them from selling their GNSS products directly into the global agricultural market.

The Company reported a foreign exchange gain in the first half of 2018 of $21 thousand, compared to a gain of $27 thousand in the same period of 2017. Foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar working capital.

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

The Company recognized a gain on the disposal of property, plant and equipment in the first half of 2018 totaling $13 thousand versus a loss of $18 thousand in the first half of 2017.

### *Income Taxes*

No income tax expense was recognized for the six months ended June 30, 2018. The Company recognized income tax expense of $19 thousand in the same period of 2017.

### *Net Income (Loss)*

In the first half of 2018, the Company incurred a net loss of $3.3 million or ($0.03) per share (basic and diluted), compared to net income of $3.1 million or $0.02 per share (basic and diluted) in the first six months of 2017.

## Liquidity and Capital Resources

*Working Capital*

The Company held cash of $11.0 million at June 30, 2018 compared to $13.9 million at December 31, 2017. Working capital was $17.7 million, down from $20.3 million at December 31, 2017. The primary items impacting working capital during the six-month period were:

- Accounts receivable at June 30, 2018 were $6.4 million versus $4.2 million at December 31, 2017, due to higher revenue.
- Inventories consist of components, work in process and finished goods related to the products sold by the Company. Inventory was $8.6 million at June 30, 2018 versus $7.6 million at December 31, 2017.

- Accounts payable and accrued expenses at June 30, 2018 were \$8.2 million versus \$5.6 million at December 31, 2017.
- Cash used in continuing operations was \$2.7 million in the six months ended June 30, 2018 compared to cash generated of \$7.9 million in the six months ended June 30, 2017.

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

**Critical Accounting Policies and Estimates**

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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 June 30, 2018, the Company did not recognize any deferred tax assets on the Consolidated Statement of Financial Position.
5. The Company accrues reserves for product warranty expenses as it relates to the repair or replacement of defective products sold in the current period. The warranty reserve is based on historical information of warranty claims compared to revenue. Any expenses directly relating to warranty claims are expected to offset the provision in period.
6. The Company has initially applied IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated.

**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 <u>Certification of Disclosure in Issuer's Annual and Interim Filings</u> ("52-109"), or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

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

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

**Forward-Looking Information**

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

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

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

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

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

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

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

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

# Condensed Consolidated Interim Financial Statements of

AgJunction®

## Three and six month periods ended June 30, 2018

(Unaudited - expressed in U.S. dollars)

# AgJunction Inc.

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

| | June 30, 2018 (Unaudited) | December 31, 2017* |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 10,967 | $ 13,893 |
| Accounts receivable, net of bad debt provisions of $236 and $228, respectively | 6,384 | 4,185 |
| Inventories | 8,571 | 7,627 |
| Current portion of contract assets, net** | 21 | – |
| Prepaid expenses | 1,123 | 990 |
| | 27,066 | 26,695 |
| Contract assets, net (less current portion)** | 176 | – |
| Property, plant and equipment, net | 2,815 | 2,899 |
| Intangible assets, net | 9,219 | 9,856 |
| Goodwill | 143 | 143 |
| | $ 39,419 | $ 39,593 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 8,157 | $ 5,649 |
| Provisions (note 5) | 716 | 629 |
| Current portion of contract liabilities, net** | 374 | – |
| Current portion of deferred revenue | 124 | 149 |
| | 9,371 | 6,427 |
| Contract liabilities, net (less current portion)** | 106 | – |
| Deferred revenue (less current portion) | 88 | 100 |
| Total liabilities | 9,565 | 6,527 |
| Shareholders' equity: | | |
| Share capital (note 3) | 148,598 | 146,896 |
| Equity reserve | 4,473 | 5,805 |
| Accumulated deficit | (123,217) | (119,635) |
| | 29,854 | 33,066 |
| | $ 39,419 | $ 39,593 |

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

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

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

Condensed Consolidated Statements of Profit or Loss

Three and six months ended June 30, 2018 and 2017
(Unaudited - expressed in U.S. thousand dollars, except per share information)

| | Three months ended June 30, 2018 | Three months ended June 30, 2017 | Six months ended June 30, 2018 | Six months ended June 30, 2017 |
|---|---|---|---|---|
| Revenue (note 4) | $ 13,776 | $ 13,341 | $ 29,550 | $ 27,914 |
| Cost of sales | 8,358 | 7,826 | 17,351 | 15,572 |
| Gross profit | 5,418 | 5,515 | 12,199 | 12,342 |
| Expenses: | | | | |
| Research and development | 3,008 | 1,861 | 5,987 | 3,944 |
| Sales and marketing | 1,984 | 1,960 | 4,149 | 3,863 |
| General and administrative | 2,757 | 2,218 | 5,436 | 4,444 |
| | 7,749 | 6,039 | 15,572 | 12,251 |
| Operating (loss) income | (2,331) | (524) | (3,373) | 91 |
| Foreign exchange loss (gain), net | 28 | (22) | (21) | (27) |
| Interest and other (income) expense | (5) | 1 | (10) | 3 |
| Other income (note 7) | – | – | – | (3,000) |
| (Gain) loss on disposal of property, plant and equipment | (9) | 18 | (13) | 18 |
| | 14 | (3) | (44) | (3,006) |
| Net (loss) income before income tax | (2,345) | (521) | (3,329) | 3,097 |
| Income tax | – | 19 | – | 19 |
| Net (loss) income | $ (2,345) | $ (540) | $ (3,329) | $ 3,078 |
| Earnings per share: | | | | |
| Basic and diluted (loss) income per share | $ (0.02) | $ 0.00 | $ (0.03) | $ 0.02 |

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

Condensed Consolidated Statements of Changes in Equity

(Expressed in U.S. thousand dollars, except share information)

| | Share capital | Equity reserve | Deficit | Total equity | Number of shares |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ 148,391 | $ 5,265 | $ (116,964) | $ 36,692 | 124,073,597 |
| Net income | – | – | 3,078 | 3,078 | – |
| Purchase and cancellation of common shares | (1,767) | – | – | (1,767) | (7,852,989) |
| Share-based payment transactions (note 3(c)) | – | 341 | – | 341 | – |
| Issue of restricted share awards, net (note 3(c)) | 168 | (168) | – | – | 402,422 |
| Balance at June 30, 2017 (unaudited) | $ 146,792 | $ 5,438 | $ (113,886) | $ 38,344 | 116,623,030 |
| Balance at December 31, 2017 | $ 146,896 | $ 5,805 | $ (119,635) | $ 33,066 | 116,878,275 |
| Impact of change in accounting policy* | – | – | (253) | (253) | – |
| Balance at January 1, 2018 (unaudited) | $ 146,896 | $ 5,805 | $ (119,888) | $ 32,813 | 116,878,275 |
| Net loss | – | – | (3,329) | (3,329) | – |
| Share-based payment transactions (note 3(c)) | – | 370 | – | 370 | – |
| Issue of restricted share awards, net (note 3(c)) | 1,702 | (1,702) | – | – | 2,384,796 |
| Balance at June 30, 2018 (unaudited) | $ 148,598 | $ 4,473 | $ (123,217) | $ 29,854 | 119,263,071 |

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

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

Condensed Consolidated Statements of Cash Flows

Six months ended June 30, 2018 and 2017
(Unaudited - expressed in U.S. thousand dollars)

| | 2018 | 2017 |
|---|---|---|
| Cash flows (used in) from operating activities: | | |
| Net (loss) income | $ (3,329) | $ 3,078 |
| Items not involving cash: | | |
| Depreciation | 347 | 339 |
| Amortization | 637 | 633 |
| Share-based payment transactions (note 3(c)) | 370 | 341 |
| Allowance loss on trade receivables | 31 | 2 |
| Write (up) down of inventory to net realizable value | (188) | 427 |
| (Gain) loss on disposal of property, plant and equipment | (13) | 18 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (2,230) | (664) |
| Inventories | (756) | 2,186 |
| Contract assets* | (7) | – |
| Prepaid expenses | (133) | (187) |
| Accounts payable and accrued liabilities | 2,508 | 1,640 |
| Provisions (note 5) | 87 | 119 |
| Contract liabilities* | 37 | – |
| Deferred revenue | (37) | (49) |
| Cash flows (used in) from operating activities | (2,676) | 7,883 |
| Cash flows (used in) financing activities: | | |
| Purchase and cancellation of common shares | – | (1,767) |
| Cash flows (used in) financing activities | – | (1,767) |
| Cash flows (used in) from investing activities: | | |
| Purchase of property, plant and equipment | (357) | (212) |
| Proceeds from the sales of property, plant and equipment | 107 | 1 |
| Cash flows (used in) from investing activities | (250) | (211) |
| (Decrease) increase in cash position | (2,926) | 5,905 |
| Cash and cash equivalents, beginning of year | 13,893 | 12,863 |
| Cash and cash equivalents, end of period | $ 10,967 | $ 18,768 |

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

See accompanying notes to condensed consolidated interim financial statements.

## 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 condensed consolidated interim financial statements of the Company as of June 30, 2018, and for the three and six month periods ended June 30, 2018 and 2017 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company"). AgJunction Inc. is a global leader of advanced guidance and autosteering solutions for precision agriculture applications. Its technologies are critical components in over 30 of the world's leading precision Ag manufacturers and solution providers and it holds over 130 fundamental steering and machine control patents. The Company markets its solutions under leading brand names including Novariant, Outback Guidance® and Satloc® and is committed to advance its vision by bringing affordable hands-free farming to every farm, regardless of terrain or size. AgJunction Inc. is headquartered in Hiawatha, Kansas, with facilities in Silicon Valley, Arizona, Canada, and Australia.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 10, 2018.

## 2. Basis of preparation and presentation:

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

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

(b) Recently adopted accounting pronouncements

IFRS 9, *Financial Instruments*

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

Amendments to IFRS 2, *Share-based Payment*

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

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

IFRIC 22, *Foreign Currency Transactions and Advance Consideration*

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

IFRS 15, *Revenue from Contracts with Customers:*

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

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

These NRE agreements fall into one of three categories, software upgrades, equipment prototype design (“hardware”), and feature code development. Revenue generated from software upgrade NRE is recognized upon delivery of the software upgrade to the customer. Revenue generated from equipment prototype design and feature code development NRE is initially deferred and later recognized on a pro-rata basis as new equipment or feature codes connected with those NRE agreements are purchased. Revenue recorded in relation to equipment prototype design NRE agreements for the three and six month periods ending June 30, 2018 totals $20 and $54, respectively, and was calculated using an estimate of future sales of related hardware. Equipment prototype design NRE revenue is located within the Revenue line of the Condensed Consolidated Statements of Profit or Loss. Revenue recognized in relation to software upgrade and feature code development NRE agreements for the three and six month periods ending June 30, 2018 totals $167 and $185, respectively. Deferred revenue related to these NRE agreements is represented as net contract liabilities on the Condensed Consolidated Statements of Financial Position and total $480 as of June 30, 2018. Remaining performance obligations on contract liabilities relate to software delivery ($311) and hardware delivery ($169).

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

Costs related to NRE agreements under all three categories are capitalized as a contract asset as the expenses are incurred, not to exceed contractual NRE billings. Capitalized expenses include amounts paid to external vendors as well as internal labor costs. Contract assets related to software upgrades are fully expensed upon delivery of the software upgrade to customers. Contract assets related to equipment prototype design and feature code development are expensed on a pro-rata basis as new equipment or feature codes connected with those NRE agreements are purchased. This requires an estimate of future sales of related hardware and feature codes. Capitalized expenses related to these NRE agreements are represented as net contract assets on the Condensed Consolidated Statements of Financial Position and total $197 as of June 30, 2018. These net contract assets relate solely to software NRE agreements.

(c) New standards and interpretations not yet adopted:

In January 2016, the IASB issued IFRS 16, *Leases*, which requires major revisions in the way lessees currently account for leases under IAS 17, *Leases*. The standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if IFRS 15, *Revenue from Contracts with Customers*, has also been applied. The standard allows for full retrospective or modified retrospective implementation along with various options, exemptions and practical expedients that can be elected at implementation. The Company is currently assessing implementation options as well as the impact of the standard on financial results.

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

(d) Financial instruments

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

## 3. Share capital:

(a) Authorized:

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

(b) Issued:

Issued share capital consists of 119,263,071 common shares.

(c) During the six months ended June 30, 2018, the Company recorded $370 (2017 – $341) in share based compensation expense relating to options and restricted share awards.

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

Three month period ended:

| *(Share price in CAD)* | June 30, 2018 | | | June 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Total options outstanding, beginning of period | 7,409,127 | $ | 0.62 | 7,461,654 | $ | 0.65 |
| Granted | – | | – | 400,000 | | 0.66 |
| Exercised | – | | – | – | | – |
| Expired or cancelled | (50,000) | | 0.89 | (66,250) | | 0.90 |
| Share options outstanding, end of period | 7,359,127 | $ | 0.62 | 7,795,404 | $ | 0.65 |

**3. Share capital (continued):**

Six month period ended:

| *(Share price in CAD)* | June 30, 2018 | | | June 30, 2017 | | |
|---|---|---|---|---|---|---|
| | Number of options | | Weighted average exercise price | Number of options | | Weighted average exercise price |
| Total options outstanding, beginning of period | 7,409,127 | $ | 0.62 | 7,136,342 | $ | 0.66 |
| Granted | – | | – | 750,000 | | 0.59 |
| Exercised | – | | – | – | | – |
| Expired or cancelled | (50,000) | | 0.89 | (90,938) | | 0.90 |
| Share options outstanding, end of period | 7,359,127 | $ | 0.62 | 7,795,404 | $ | 0.65 |

| *(Share price in CAD)* | Options outstanding | | | | Options exercisable | | |
|---|---|---|---|---|---|---|---|
| Range of exercise prices outstanding | Number outstanding at June 30, 2018 | Weighted average remaining contractual life (months) | | Weighted average exercise price | Number exercisable at June 30, 2018 | | Weighted average exercise price |
| $0.50 – 1.00 | 7,312,754 | 34 | $ | 0.61 | 3,174,422 | $ | 0.63 |
| $1.01 – 1.12 | 46,373 | 6 | $ | 1.12 | 41,813 | $ | 1.12 |
| $0.50 – 1.12 | 7,359,127 | 34 | $ | 0.62 | 3,216,235 | $ | 0.63 |

**3. Share capital (continued):**

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

Three month period ended:

| *(Share price in CAD)* | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Number of RSAs | Weighted average grant price | Number of RSAs | Weighted average grant price |
| Total RSAs outstanding, beginning of period | 2,002,045 | $ 0.57 | 4,371,959 | $ 0.57 |
| Granted | 2,198,130 | 0.90 | 150,000 | 0.61 |
| Vested | (125,001) | 0.63 | (2,397,439) | 0.63 |
| Expired or cancelled | (113,334) | 0.53 | – | – |
| RSAs outstanding, end of period | 3,961,840 | $ 0.75 | 2,124,520 | $ 0.51 |

Six month period ended:

| *(Share price in CAD)* | June 30, 2018 | | June 30, 2017 | |
|---|---|---|---|---|
| | Number of RSAs | Weighted average grant price | Number of RSAs | Weighted average grant price |
| Total RSAs outstanding, beginning of period | 2,280,217 | $ 0.53 | 4,131,959 | $ 0.58 |
| Granted | 2,538,130 | 0.87 | 490,000 | 0.53 |
| Vested | (703,173) | 0.54 | (2,497,439) | 0.62 |
| Expired or cancelled | (153,334) | 0.54 | – | – |
| RSAs outstanding, end of period | 3,961,840 | $ 0.75 | 2,124,520 | $ 0.51 |

The restricted share awards outstanding as of June 30, 2018 have a weighted average remaining vesting life of 24 (2017 – 35) months.

**3. Share capital (continued):**

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

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

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

## 4. Revenue concentration:

Revenue by business unit:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Agriculture | $ 13,776 | $ 13,341 | $ 29,550 | $ 27,914 |

Revenue by geographic region:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| | June 30, 2018 | June 30, 2017 | June 30, 2018 | June 30, 2017 |
| Americas | $ 6,761 | $ 7,085 | $ 15,242 | $ 15,339 |
| Asia-Pacific (APAC) | 178 | 822 | 919 | 1,848 |
| Europe, the Middle East, and Africa (EMEA) | 6,837 | 5,434 | 13,389 | 10,727 |
| | $ 13,776 | $ 13,341 | $ 29,550 | $ 27,914 |

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

## 5. Provisions:

| | Warranty | Restructuring | Total |
|---|---|---|---|
| Balance at December 31, 2017 | $ 613 | $ 16 | $ 629 |
| Provisions made during the period | 428 | – | 428 |
| Provisions used during the period | (325) | (16) | (341) |
| Balance at June 30, 2018 | $ 716 | $ – | $ 716 |

## 6. Related party transactions:

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

## 6. Related party transactions (continued):

For the period January 1, 2018 through June 30, 2018, the Company incurred short term compensation expense in the amount of $56 ($71 in the same period of 2017) for duties performed by Mr. Ladd as well as $14 ($16 in the same period of 2017) in travel and other business-related expenses associated with this service agreement. These expenses are located within the General and administrative line item of the Condensed Consolidated Statement of Profit or Loss. Of these expenses, $9 were unpaid as of June 30, 2018, and are recorded as Accounts payable and accrued liabilities in the Condensed Consolidated Statement of Financial Position.

The options issued to Mr. Ladd in connection to his role as Senior Strategic Advisor have a fair value of $144 (209 CAD) as of the options' grant date, January 18, 2016. Related share-based compensation expense recognized within the General and administrative line item of the Condensed Consolidated Statement of Profit or Loss for the six month period presented totals $14 (18 CAD). The grant date fair value of the options granted was estimated by using the Black-Scholes call option pricing model. The following assumptions were used in determining the fair value: Company share price at issuance; share option exercise price; weighted average volatility of 49%; interest rate of 0.63%; and expected life of 4.0 years.

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

## 7. Release of license restriction:

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