Condensed Consolidated Interim Financial Statements of

# 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, | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 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.