



Interim Management's Discussion and Analysis

Three and six month periods ended June 30, 2018

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

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

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

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

Forward-Looking Information

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

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

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

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

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

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

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

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