

Condensed Consolidated Interim Financial Statements of



Three and nine month periods ended September 30, 2020

(Unaudited - expressed in U.S. dollars)

AgJunction Inc.

Condensed Consolidated Statements of Financial Position
(Unaudited - expressed in U.S. thousand dollars)

	September 30, 2020 (unaudited)	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,916	\$ 17,248
Accounts receivable, net	3,161	2,793
Current portion of notes receivable, net	320	320
Inventories	7,727	3,743
Prepaid expenses and deposits	617	819
	21,741	24,923
Notes receivable, less current portion, net	568	760
Property, plant and equipment, net	1,207	1,535
Right-of-use assets (note 6)	751	1,020
Intangible assets, net	10,132	10,112
Goodwill	143	143
	\$ 34,542	\$ 38,493
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,144	\$ 3,540
Provisions (note 5)	850	826
Current portion of lease liability (note 6)	363	429
Current portion of deferred revenue	1,294	935
	5,651	5,730
Deferred revenue, less current portion	2,657	3,298
Lease liability, net of current portion (note 6)	428	702
Total liabilities	8,736	9,730
Shareholders' equity:		
Share capital	23,495	148,495
Equity reserve	5,010	4,890
Accumulated deficit	(2,699)	(124,622)
	25,806	28,763
	\$ 34,542	\$ 38,493

* The December 31, 2019 balance sheet figures have been derived from the audited consolidated financial statements as of that date.

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Condensed Consolidated Statements of Profit or Loss

Three and nine months ended September 30, 2020 and 2019

(Unaudited - expressed in U.S. thousand dollars)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Revenue (note 4)	\$ 3,821	\$ 8,641	\$ 13,623	\$ 35,955
Cost of sales	1,922	5,854	6,925	22,781
Gross Profit	1,899	2,787	6,698	13,174
	49.7%	32.3%	49.2%	36.6%
Expenses:				
Research and development	861	1,901	3,414	5,637
Sales and marketing	503	1,186	1,645	3,828
General and administrative	1,360	2,233	4,719	6,940
	2,724	5,320	9,778	16,405
Operating (loss) income	(825)	(2,533)	(3,080)	(3,231)
Interest and other income	(11)	(83)	(89)	(204)
Foreign exchange (gain) loss, net	54	86	86	29
Loss on sale of property, plant and equipment	-	(9)	-	36
	43	(6)	(3)	(139)
Net (loss) income before income taxes	(868)	(2,527)	(3,077)	(3,092)
Income tax benefit	-	(2)	-	-
Net (loss) income	\$ (868)	\$ (2,525)	\$ (3,077)	\$ (3,092)
Loss per share:				
Basic and diluted (loss) per share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.03)

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Condensed Consolidated Statements of Changes in Equity (Unaudited - expressed in U.S. thousand dollars)

	Share capital	Equity reserve	Deficit	Total equity	Number of shares
Balance at January 1, 2019	\$ 148,475	\$ 4,892	\$ (118,424)	\$ 34,943	119,085
Net (loss)	-	-	(3,092)	(3,092)	-
Share-based payment transactions	-	236	-	236	-
Exercise of stock options to purchase common shares	-	-	-	-	5
Exercise of non-vested restricted share awards	20	-	-	20	-
Cancellation of non-vested restricted share awards	-	-	-	-	(1,038)
Balance at September 30, 2019	\$ 148,495	\$ 5,128	\$ (121,516)	\$ 32,107	118,052
Balance at January 1, 2020	\$ 148,495	\$ 4,890	\$ (124,622)	\$ 28,763	117,073
Net (loss)	-	-	(3,077)	(3,077)	-
Share-based payment transactions	-	120	-	120	-
Issue (cancellation) of restricted stock awards, net	-	-	-	-	4,019
Reduction in stated capital	(125,000)	-	125,000	-	-
Balance at September 30, 2020	\$ 23,495	\$ 5,010	\$ (2,699)	\$ 25,806	\$ 121,092

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Condensed Consolidated Statements of Cash Flows

Nine months ended September 30, 2020 and 2019

(Unaudited - expressed in U.S. thousand dollars)

	2020	2019
Cash flows used in operating activities:		
Net (loss) income	\$ (3,077)	\$ (3,092)
Items not involving cash:		
Depreciation	540	849
Amortization	1,450	1,131
Share-based payment transactions	120	236
Allowance loss on trade receivables	4	-
Recovery (write down) of reserve for slow moving and obsolete inventories	7	(375)
(Gain) loss on disposal of property, plant and equipment	68	36
Change in operating working capital:		
Accounts receivable	(372)	5,115
Inventories	(3,991)	2,116
Contract assets	-	243
Prepaid expenses and deposits	202	586
Accounts payable and accrued liabilities	(396)	(4,407)
Provisions	24	163
Contract liabilities	-	5
Deferred revenue	(281)	(659)
Cash flows (used in) provided by operating activities:	(5,702)	1,947
Cash flows used in financing activities:		
Issue of share capital	-	20
Interest payments on lease liabilities	(34)	-
Paycheck Protection Program Loan proceeds	1,540	-
Paycheck Protection Program Loan repayment	(1,540)	-
Principal payments on lease liabilities	(306)	(438)
Cash flows (used in) provided by financing activities:	(340)	(418)
Cash flows used in investing activities:		
Principal payments received on notes receivable	192	193
Purchase of property, plant and equipment	(79)	(294)
Intangible asset addition, net	(1,403)	(1,526)
Cash flows (used in) provided by investing activities:	(1,290)	(1,627)
Decrease in cash and cash equivalents	(7,332)	(98)
Cash and cash equivalents, beginning of period	17,248	21,398
Cash and cash equivalents, end of period	\$ 9,916	\$ 21,300

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in U.S. thousand dollars, except where noted)

1. Reporting entity:

AgJunction Inc. (the "Company") is a publicly traded company listed on the Toronto Stock Exchange under the ticker symbol "AJX", domiciled in Canada with its primary office located at 9150 E. Del Camino Drive, Suite 109, Scottsdale, Arizona. AgJunction Inc. is a leading provider of innovative hardware and software solutions for precision agriculture worldwide. The Company holds fundamental steering and machine control patents and its autosteering and machine control solutions are critical components in over 30 of the world's leading precision Ag manufacturers and solution providers. The condensed consolidated financial statements of the Company as of and for the three and nine months ended September 30, 2020 and 2019 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company"). The condensed consolidated financial statements were authorized for issue by the Board of Directors on November 4, 2020.

In March 2020, the World Health Organization characterized the COVID-19 virus as a global pandemic. The spread of the pandemic is having serious economic implications on the global economy. Numerous sectors of the economy are suffering damage and the long-term economic and business consequences remain unknown. Business impacts including supply-chain interruptions and delays, negative impacts on customers, volatility in the equity and debt markets, reduced revenue and cash flows, and other economic consequences may occur. There is significant uncertainty as to the likely effects of this outbreak which may, among other things, impact our supply chain and may negatively impact the global agriculture market.

On March 16, 2020 the Company imposed a mandatory work from home order for non-essential personnel and restricted business travel. While the COVID-19 virus has not had a material impact on our business at this time, we are unable to quantify the potential impact this pandemic may have on our future financial performance.

2. Basis of preparation and presentation:

- (a) These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (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, 2019, 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, 2019.

- (b) Recently adopted accounting pronouncements

None

AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

(Unaudited - expressed in U.S. thousand dollars, except where noted)

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 121,091,881 common shares at \$23.5 million.

(c) During the nine months ended September 30, 2020, the Company recorded (\$11) (2019 – \$58) as share based compensation expense relating to options and \$131 (2019 - \$178) relating to restricted share awards for total compensation expense of \$120 (2019 - \$236).

(d) As approved by the shareholders at the Company's Annual General Meeting held on June 4, 2020, the stated capital of the Company's common shares was reduced to \$23,495 effective June 4, 2020. The reduction of share capital was applied to the deficit which was reduced by \$125,000.

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

Three month period ended:

(share price in CAD)	September 30, 2020		September 30, 2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Total options outstanding, beginning of period	2,374	\$ 0.63	6,658	\$ 0.53
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or cancelled	-	-	(33)	0.55
Share options outstanding, end of period	2,374	\$ 0.63	6,625	\$ 0.53

AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in U.S. thousand dollars, except where noted)

3. Share capital (continued):

Nine month period ended:

(share price in CAD)	September 30, 2020		September 30, 2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Total options outstanding, beginning of period	2,878	\$ 0.55	7,313	\$ 0.55
Granted	-	-	-	-
Exercised	-	-	(5)	0.50
Expired or cancelled	(504)	0.63	(683)	0.59
Share options outstanding, end of period	2,374	\$ 0.63	6,625	\$ 0.53

(share price in CAD)	Options outstanding			Options exercisable	
	Number outstanding at September 30, 2020	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at September 30, 2020	Weighted average exercise price
Range of exercise prices outstanding					
\$0.50 - \$1.00	2,374	11	\$ 0.63	1,944	\$ 0.63

Change 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)	September 30, 2020		September 30, 2019	
	Number of RSAs	Weighted average grant price	Number of RSAs	Weighted average grant price
Total options outstanding, beginning of period	4,496	\$ 0.22	1,914	\$ 0.70
Granted	-	-	-	-
Vested	(50)	0.50	(50)	0.50
Expired or cancelled	(24)	0.90	(206)	0.72
RSAs outstanding, end of period	4,422	\$ 0.22	1,658	\$ 0.71

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Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019
(Unaudited - expressed in U.S. thousand dollars, except where noted)

3. Share capital (continued):

Nine month period ended:

(share price in CAD)	September 30, 2020		September 30, 2019	
	Number of RSAs	Weighted average grant price	Number of RSAs	Weighted average grant price
Total RSAs outstanding, beginning of period	589	\$ 0.81	3,525	\$ 0.76
Granted	4,272	0.20	-	-
Exercised	(139)	0.69	(829)	0.50
Expired or cancelled	(300)	0.85	(1,038)	0.83
RSAs outstanding, end of period	4,422	\$ 0.22	1,658	\$ 0.71

The restricted share awards outstanding as of September 30, 2020 have a weighted average remaining vesting life of 55 (2019 – 25) months.

- (e) The grant date fair value of RSAs granted is estimated by using the Black-Scholes put option pricing model. No RSA grants were issued during the quarter ended September 30, 2020.

During the nine months ended September 30, 2020, the Company issued 4.3 million RSA grants and no stock options.

4. Revenue concentration:

	Three months ended		Nine months ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Americas	\$ 2,717	\$ 2,790	\$ 10,540	\$ 10,645
Asia-Pacific (APAC)	575	181	1,337	511
Europe, the Middle East, and Africa (EMEA)	529	5,670	1,746	24,799
	\$ 3,821	\$ 8,641	\$ 13,623	\$ 35,955

Payment terms associated with revenue recognized in each period shown above are normally 30 days from invoice date.

The decrease in revenue from 2019 to 2020 is due to shipments fulfilled under the Bulk Purchase Order (BPO) during the first three quarters of 2019 totaling \$24M.

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5. Provisions:

	Warranty		Restructuring		Total
Balance at December 31, 2019	\$	826	\$	200	\$ 1,026
Provisions made during the period		239		-	239
Provisions used during the period		(149)		(150)	(299)
Balance at March 31, 2020	\$	916	\$	50	\$ 966
Provisions made during the period		3		-	3
Provisions used during the period		(664)		(50)	(714)
Balance at June 30, 2020	\$	255	\$	-	\$ 255
Provisions made during the period		611		-	611
Provisions used during the period		(16)		-	(16)
Balance at September 30, 2020	\$	850	\$	-	\$ 850

The Company announced the closure of its Brisbane, Australia and Fremont, California offices on April 10, 2019. Both of these closures were completed by June 30, 2020.

In connection with the site closures, provisions were made during the year ended December 31, 2019 which included estimates for lease acceleration, early contract and lease termination, shipping, and severance fees. There were no outstanding provisions for site closure at June 30, 2020.

6. Leases:

The Company leases assets including office space, printers, copiers, security system, and a mailing system. Information about leases for which the Company is a lessee is presented below.

Right-of-use assets

	Office Space		Equipment		Total
Balance at January 1, 2019	\$	1,750	\$	56	\$ 1,806
Lease Additions		45		-	45
Depreciation change for the period		(499)		(17)	(516)
Balance, September 30, 2019	\$	1,296	\$	39	\$ 1,335
Balance at January 1, 2020	\$	962	\$	58	\$ 1,020
Lease Additions		-		-	-
Depreciation change for the period		(250)		(19)	(269)
Balance, September 30, 2020	\$	712	\$	39	\$ 751

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6. Leases (continued):

Lease liabilities

	2020	2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	\$ 374	\$ 708
One to five years	477	828
Total undiscounted lease liabilities at September 30	851	1,536
Lease liabilities at initial application	1,020	1,806
Current	\$ 363	\$ 577
Non-current	428	836
Lease liabilities included in the statement of financial position at September 30	\$ 791	\$ 1,413

Amounts recognized in profit or loss

	2020	2019
Interest on lease liabilities	\$ 34	\$ 50
Variable lease payments not included in the measurement of lease liabilities	-	-
Income from sub-leasing right-of-use assets	-	-
Depreciation of right-of-use asset	269	-
Expenses related to short-term leases	-	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	3	1
Loss related to foreign currency exchange differences in lease liability	-	-
Total amount recognized in profit and loss	\$ 306	\$ 51

Amounts recognized in the statement of cash flows

	2020	2019
Total cash outflow for leases	(340)	(488)

Real estate leases

The Company leases office space typically for a period of 3-7 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Certain leases provide for additional rent payments that are based on changes in local price indices. Some leases require the Company to make payments that relate to the property taxes levied on the lessor and utility charges paid by the lessor.

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6. Leases (continued):

Certain leases of office space contain extension options exercisable by the Company up to one year before the end of the non-cancellable contract period. Where practicable, the Company seeks to include the extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Company and not by the lessors. The Company does not expect to exercise any lease options for termination or purchase.

Lease cancellation

The company announced the closure of its Fremont, California facility on April 10, 2019. The Company had one remaining lease related to the Fremont, California facility and retained use and access to the Fremont office facility through the lease expiration date of June 30, 2020. All equipment and supplies have been transported to the Scottsdale office. The financial obligations for ending the lease have been fulfilled as of June 26, 2020 and a full release has been received from the landlord.

Upon lease termination, fees associated with the lease cancellation, such as negotiation costs, relocation costs or termination penalties including costs associated with returning the asset in a contractually specified condition or contractually specified location are the responsibility of the lessee.

Other leases

The Company leases printers, a security system and a mailing system, with lease terms of 1 to 4.5 years. In some cases, the Company has options to purchase the assets at the end of the contract term; in other cases, it guarantees the residual value of the leased assets at the end of the contract term.

The Company monitors the use of these assets and reassesses the estimated amount payable under the residual value guarantees at the reporting date to remeasure lease liabilities and right-of-use assets. The Company does not have any residual guarantees as of September 30, 2020.

The Company also leases a storage unit, postage meter and security system with contract terms no longer than 3 years. These leases are short-term and/or leases of low-value items. The Company has elected not to recognize right-of-use assets and lease liabilities for these leases.

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Notes to the Condensed Consolidated Interim Financial Statements

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(Unaudited - expressed in U.S. thousand dollars, except where noted)

7. Financial instruments and financial risk management:

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

(a) Credit risk:

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

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

(b) Interest rate risk:

The Company is exposed to interest rate risk on cash balances or term deposits earning interest income and to the extent that it may draw on its operating line of credit or carry other forms of debt which calculate interest as a function of variable interest rates. At September 30, 2020, the Company does not carry material liabilities that are exposed to variable interest rates.

(c) Liquidity risk:

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

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

(d) Foreign exchange risk:

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

- i. Cash flow – A significant portion of the Company's revenues and expenses are denominated in US dollars, however certain of its expenses are denominated in Canadian dollars and Euros.
- ii. Working capital – The Company has a US dollar measurement or functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in Canadian dollars, Australian dollars, and Euros. At quarter end, working capital denominated in Canadian dollars, Australian dollars, Euros, and Chinese Yuan was not material.

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Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended September 30, 2020 and 2019

(Unaudited - expressed in U.S. thousand dollars, except where noted)

7. Financial instruments and financial risk management (continued):

The Company does not use forward contracts for trading or speculative purposes. Foreign exchange contracts are recorded at fair value with changes in fair value recognized through earnings and are included in "Foreign exchange gain (loss)" in the consolidated statement of profit or loss. There were no foreign exchange contracts outstanding at September 30, 2020.

(e) Fair value of financial instruments:

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

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

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

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

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

As of September 30, 2020, carrying values of financial assets and liabilities approximate fair value.

8. Paycheck Protection Program Loan

On April 30, 2020, the Company entered into a Paycheck Protection Program Loan (the "PPP Note") sponsored by the Small Business Administration (the "SBA") through the company's bank. The PPP Note was issued pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). On April 30, 2020, the Company received \$1.54 million under the Federal Government's Small Business Paycheck Protection Program ("PPP"). Following additional guidance issued by the SBA on April 23, 2020 that cast doubt on the ability of public companies to qualify for loans under the Paycheck Protection Program, the Company fully repaid the PPP Note on May 11, 2020.

9. Impairment

As a result of the economic effects of the COVID-19, the Company completed an impairment analysis as of September 30, 2020.

The Company has a single cash-generating unit ("CGU"), the agricultural business unit which represents the lowest level within the Company at which the goodwill and long-lived assets are monitored for internal management purposes. Goodwill and long-lived assets impairment are determined by assessing the recoverable amount of the assets or CGU to which the asset relates. The recoverable amount of an asset or CGU is the greater of fair value less cost to sell and the value in use.

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Three and nine months ended September 30, 2020 and 2019

(Unaudited - expressed in U.S. thousand dollars, except where noted)

9. Impairment (continued):

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

Impairment losses are measured as the difference between the carrying amount of the assets and their recoverable amount. Management performed an asset impairment analysis as of September 30, 2020 and concluded there was no asset impairment as of September 30, 2020.