

Condensed Consolidated Interim Financial Statements of



Three and six month period ending June 30, 2019

(Unaudited - expressed in U.S. dollars)

AgJunction Inc.

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

(\$000s)	June 30, 2019 (unaudited)	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,905	\$ 21,398
Accounts receivable, net	10,598	8,508
Current portion of notes receivable, net	320	320
Inventories	4,530	5,743
Contract assets, net	-	58
Prepaid expenses and deposits	1,338	1,286
	35,691	37,313
Contract assets, net	-	185
Notes receivable, less current portion, net	955	1,083
Property, plant and equipment, net	1,435	1,434
Right-of-use assets (note 7)	1,499	-
Intangible assets, net	9,875	9,689
Goodwill	143	143
	\$ 49,598	\$ 49,847
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,984	\$ 8,500
Provisions (note 5)	1,264	999
Contract liabilities, net	279	84
Current portion of lease liability (note 7)	636	-
Current portion of deferred revenue	1,038	1,048
	10,201	10,631
Contract liabilities, net	92	96
Deferred revenue, less current portion	3,821	4,177
Lease liability, net of current portion (note 7)	881	-
Total liabilities	14,995	14,904
Shareholders' equity:		
Share capital	148,495	148,475
Equity reserve	5,099	4,892
Accumulated deficit	(118,991)	(118,424)
	34,603	34,943
	\$ 49,598	\$ 49,847

* The December 31, 2018 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 six months ended June 30, 2019 and 2018
(Unaudited - expressed in U.S. dollars)

(\$000s)	Three Months ended June 30,		Six Months ended June 30,	
	2019	2018	2019	2018
Revenue (note 4)	\$ 13,301	\$ 13,776	\$ 27,314	\$ 29,550
Cost of sales	8,677	8,358	16,927	17,351
Gross Profit	4,624	5,418	10,387	12,199
Expenses:				
Research and development	1,984	3,008	3,736	5,987
Sales and marketing	1,285	1,984	2,642	4,149
General and administrative	2,099	2,757	4,707	5,436
	5,368	7,749	11,085	15,572
Operating (loss)	(744)	(2,331)	(698)	(3,373)
Foreign exchange (gain) loss, net	(39)	28	(57)	(21)
Interest and other income	(61)	(5)	(121)	(10)
(Gain) loss on sale of property, plant and equipment	37	(9)	45	(13)
	(63)	14	(133)	(44)
Net loss before income taxes	(681)	(2,345)	(565)	(3,329)
Income tax	1	-	2	-
Net loss	\$ (682)	\$ (2,345)	\$ (567)	\$ (3,329)
Loss per share:				
Basic and diluted loss per share	\$ (0.01)	\$ (0.02)	\$ (0.00)	\$ (0.03)

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Condensed Consolidated Statements of Changes in Equity

(\$000s)	Share capital	Equity reserve	Deficit	Total equity	Number of shares
Balance at January 1, 2018	\$ 146,896	\$ 5,805	\$ (119,888)	\$ 32,813	116,879
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
Balance at June 30, 2018 (unaudited)	\$ 148,598	\$ 4,473	\$ (123,217)	\$ 29,854	119,263
Balance at January 1, 2019	\$ 148,475	\$ 4,892	\$ (118,424)	\$ 34,943	119,085
Net (loss)	-	-	(567)	(567)	-
Share-based payment transactions (note 3(c))	-	207	-	207	-
Exercise of stock options to purchase common shares (note 3(c))	-	-	-	-	5
Exercise of non-vested restricted share awards (note 3(c))	20	-	-	20	-
Cancellation of non-vested restricted share awards (note 3(c))	-	-	-	-	(832)
Balance at June 30, 2019 (unaudited)	\$ 148,495	\$ 5,099	\$ (118,991)	\$ 34,603	118,258

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Condensed Consolidated Statements of Cash Flows

Three and six months ended June 30, 2019 and 2018
(Unaudited - expressed in U.S. dollars)

(\$000s)	2019	2018
Cash flows used in operating activities:		
Net (loss)	\$ (567)	\$ (3,329)
Items not involving cash:		
Depreciation	530	347
Amortization	693	637
Share-based payment transactions (note 3(c))	207	370
Allowance loss on trade receivables	-	31
Recovery of inventory to net realizable value	(343)	(188)
(Gain) loss on disposal of property, plant and equipment	45	(13)
Change in operating working capital:		
Accounts receivable	(2,090)	(2,230)
Note receivable	-	-
Inventories	1,556	(756)
Contract assets	243	(7)
Prepaid expenses and deposits	(52)	(133)
Accounts payable and accrued liabilities	(1,516)	2,508
Provisions (note 5)	265	87
Contract liabilities	191	37
Deferred revenue	(366)	(37)
Cash flows used in operating activities:	(1,204)	(2,676)
Cash flows used in financing activities:		
Issue of share capital	20	-
Principal payments on lease liabilities	(289)	-
Cash flows used in financing activities:	(269)	-
Cash flows used in investing activities:		
Principal payments on notes receivable	128	-
Proceeds from the sale of property, plant and equipment	-	107
Purchase of property, plant and equipment	(269)	(357)
Intangible asset addition, net	(879)	-
Cash flows used in investing activities:	(1,020)	(250)
Decrease in cash and cash equivalents	(2,493)	(2,926)
Cash and cash equivalents, beginning of period	21,398	13,893
Cash and cash equivalents, end of period	\$ 18,905	\$ 10,967

See accompanying notes to condensed consolidated interim financial statements.

AgJunction Inc.

Notes to the Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2019 and 2018

(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 six months ended June 30, 2019 and 2018 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 August 6, 2019.

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, 2018, 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, 2018.

- (b) Recently adopted accounting pronouncements

IFRS 16, *Leases*

The Company adopted the new standard effective January 1, 2019. The Company applied IFRS 16 with a date of initial application of January 1, 2019. As a result, the Company has changed its accounting policy for lease contracts as detailed below.

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in Note 7.

Previously, the Company determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, the Company assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Company assessed which transactions were leases, it applied IFRS 16 only to contracts that were previously identified as leases, at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there was

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Three and six months ended June 30, 2019 and 2018

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

2. Basis of preparation and presentation (continued):

a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases – i.e. these leases are on the condensed consolidated statement of financial position.

The Company applied recognition exemptions to leases that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases"). For leases of other assets, which were classified as operating under IAS 17, the Company recognized right-of-use assets and lease liabilities.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as of January 1, 2019. At transition, right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied a single discount rate to a portfolio of leases with similar characteristics.
- Adjusted the right-of-use assets by the amount of IAS 37 onerous contract provision immediately before the date of initial application, as an alternative to an impairment review.
- Applied the short term lease exemption not to recognize right-of-use assets at the date of initial application.
- Applied the low value lease exemption not to recognize right-of-use assets at the date of initial application.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases that were classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and lease liability at January 1, 2019 are determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

IFRIC 23, *Uncertainty over Income Tax Treatments*

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. This standard did not have a significant impact on the Company's financial results.

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Three and six months ended June 30, 2019 and 2018

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

2. Basis of preparation and presentation (continued):

(c) *Revenue from Contracts with Customers:*

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 has three categories of revenue from contracts with customers including sales to customers, non-recurring engineering ("NRE") and royalty revenue.

The Non-Recurring Engineering (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.

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 \$0 and \$197 as of June 30, 2019 and 2018, respectively. These net contract assets relate solely to software NRE agreements.

Under the standard, sales-based or usage-based royalty revenue is recognized when the Company satisfies its performance obligations over the contractual term. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Royalty revenue is located within the Revenue line of the Condensed Consolidated Statements of Profit or Loss. Royalty revenue recognized during the three and six months ended June 30, 2019 was \$285 and \$556, respectively. Deferred royalty revenue is represented in deferred revenue on the Condensed Consolidated Statements of Financial Position and totals \$4,752 and \$0 as of June 30, 2019 and 2018, respectively. Deferred NRE revenue is represented as net contract liabilities on the Condensed Consolidated Statements of Financial Position.

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Three and six months ended June 30, 2019 and 2018

(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 118,257,853 common shares at \$148.5 million.

(c) During the six months ended June 30, 2019, the Company recorded \$42 (2018 – \$149) as share based compensation expense relating to options and \$165 (2018 - \$221) relating to restricted share awards for total compensation expense of \$207 (2018 - \$370).

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

Three Months Ended (share price in CAD)		June 30, 2019		June 30, 2018	
		Number of Options	Weighted average exercise	Number of Options	Weighted average exercise
Total options outstanding, beginning of period		7,313	\$ 0.55	7,409	\$ 0.62
Granted		-	-	-	-
Exercised		(5)	0.50	-	-
Expired or cancelled		(650)	0.59	(50)	0.89
Share options outstanding, end of period		6,658	\$ 0.53	7,359	\$ 0.62

Six Months Ended (share price in CAD)		June 30, 2019		June 30, 2018	
		Number of Options	Weighted average exercise	Number of Options	Weighted average exercise
Total options outstanding, beginning of period		7,313	\$ 0.55	7,409	\$ 0.62
Granted		-	-	-	-
Exercised		(5)	0.50	-	-
Expired or cancelled		(650)	0.50	(50)	0.89
Share options outstanding, end of period		6,658	\$ 0.53	7,359	\$ 0.62

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Three and six months ended June 30, 2019 and 2018

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

3. Share capital (continued):

(share price in CAD)	Options outstanding			Options exercisable	
	Number outstanding at June 30, 2019	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at June 30, 2019	Weighted average exercise price
Range of exercise prices outstanding					
\$0.50 - \$1.00	6,658	22	\$ 0.59	4,217	\$ 0.53

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

Three Months Ended

(share price in CAD)	June 30, 2019		June 30, 2018	
	Number of RSAs	Weighted average grant price	Number of RSAs	Weighted average grant price
Total options outstanding, beginning of period	3,226	\$ 0.76	2,002	\$ 0.57
Granted	-	-	2,198	0.90
Vested	(582)	0.63	(125)	0.63
Expired or cancelled	(730)	0.87	(113)	0.53
RSAs outstanding, end of period	1,914	\$ 0.70	3,962	\$ 0.75

Six Months Ended

(share price in CAD)	June 30, 2019		June 30, 2018	
	Number of RSAs	Weighted average grant price	Number of RSAs	Weighted average grant price
Total options outstanding, beginning of period	3,525	\$ 0.76	2,280	\$ 0.53
Granted	-	-	2,538	0.87
Vested	(779)	0.72	(703)	0.54
Expired or cancelled	(832)	0.85	(153)	0.54
RSAs outstanding, end of period	1,914	\$ 0.70	3,962	\$ 0.75

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Three and six months ended June 30, 2019 and 2018

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

3. Share capital (continued):

The restricted share awards outstanding as of June 30, 2019 have a weighted average remaining vesting life of 21 (2018 – 24) months.

- (d) 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.

There were no stock options or RSA grants during the three and six months ended June 30, 2019.

4. Revenue concentration:

Revenue by business unit:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Agriculture	\$ 13,301	\$ 13,776	\$ 27,314	\$ 29,550

Revenue by geographic region:

	Three months ended		Six months ended	
	June 30, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Americas	\$ 3,021	\$ 6,761	\$ 7,726	\$ 15,242
Asia-Pacific (APAC)	17	178	329	919
Europe, the Middle East, and Africa (EMEA)	10,263	6,837	19,259	13,389
	\$ 13,301	\$ 13,776	\$ 27,314	\$ 29,550

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.

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Three and six months ended June 30, 2019 and 2018

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

5. Provisions:

	Warranty	Restructuring	Total
Balance at December 31, 2017	\$ 613	\$ 16	\$ 629
Provisions made during the period	208	-	208
Provisions used during the period	(127)	-	(127)
Balance at March 31, 2018	\$ 694	\$ 16	\$ 710
Provisions made during the period	220	\$ -	220
Provisions used during the period	(198)	\$ (16)	(214)
Balance at June 30, 2018	\$ 716	\$ -	\$ 716

	Warranty	Restructuring	Warranty
Balance at December 31, 2018	\$ 999	\$ -	\$ 999
Provisions made during the period	296	-	296
Provisions used during the period	(61)	-	(61)
Balance at March 31, 2019	\$ 1,234	\$ -	\$ 1,234
Provisions made during the period	54	-	54
Provisions used during the period	(24)	-	(24)
Balance at June 30, 2019	\$ 1,264	\$ -	\$ 1,264

6. Related party transactions:

In 2016, Jonathan Ladd, a member of the Board was engaged by the Company to act as a Senior Strategic Advisor to the CEO at an hourly rate plus 800 thousand options as share-based compensation whereby the options vest equally over a 48-month period.

For the period January 1, 2019 through June 30, 2019, the Company incurred short term compensation expense in the amount of \$58 (\$56 in the same period of 2018) for duties performed by Mr. Ladd as well as \$17 (\$14 in the same period of 2018) 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, \$10 were unpaid as of June 30, 2019, and are located within the Accounts payable and accrued liabilities line item of the Condensed Consolidated Statement of Financial Position.

The options issued to Mr. Ladd in connection to his role as Senior Strategic Advisor had 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 three and six month periods presented totals \$4 (5 CAD) and \$3 (4 CAD), respectively. 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

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Three and six months ended June 30, 2019 and 2018

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

6. Related party transactions (continued):

determining the fair value: Company stock price at issuance; stock 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. Leases:

The Company recognizes right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The Company used its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

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Three and six months ended June 30, 2019 and 2018

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

7. Leases (continued):

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company presents right-of-use assets that do not meet the definition of investment property in the condensed consolidated statement of financial position as Right-of-use assets.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including a storage unit, combines, and postage meter. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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
Depreciation change for the period	(299)	(8)	(307)
Balance, June 30, 2019	\$ 1,451	\$ 48	\$ 1,499

Lease liabilities

	2019
Maturity analysis - contractual undiscounted cash flows	
Less than one year	\$ 660
One to five years	973
Total undiscounted lease liabilities at June 30, 2019	1,633
Lease liabilities at initial application	1,806
Current	\$ 636
Non-current	881
Lease liabilities included in the statement of financial position at June 30, 2019	\$ 1,517

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Three and six months ended June 30, 2019 and 2018

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

7. Leases (continued):

Amounts recognized in profit or loss

	2019
Interest on lease liabilities	18
Variable lease payments not included in the measurement of lease liabilities	-
Income from sub-leasing right-of-use assets	-
Expenses related to short-term leases	-
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	1
Loss related to foreign currency exchange differences in lease liability	\$ -

Amounts recognized in the statement of cash flows

	2019
Total cash outflow for leases	(307)

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.

Some leases provide for additional rent payments that are based on changes in local price indices or sales that the Company makes at the leased office space in the period. 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.

Some 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 assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Company reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

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.

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Three and six months ended June 30, 2019 and 2018

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

7. Leases (continued):

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 June 30, 2019.

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.

IAS 17 – as a lessee

In the comparative period, as a lessee the Company classified leases that transfer substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payment were the payments over the lease term that the lessee was required to make, excluding any contingent rent.

Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Company's statement of income. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.