



Interim Management's Discussion and Analysis

Three month period ended March 31, 2017

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**AgJunction Inc.**  
**Management's Discussion and Analysis**  
**Three month period ended March 31, 2017**

The following discussion and analysis is effective as of May 10, 2017 and should be read together with our unaudited consolidated interim financial statements and accompanying notes for the three month period ended March 31, 2017. 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](http://www.sedar.com). All amounts stated in this Management Discussion and Analysis ("MD&A") are in US dollars unless otherwise stated.

**Overview**

References throughout this document to AgJunction or the "Company" all refer to AgJunction Inc. and its subsidiaries.

AgJunction is a public company, listed on the Toronto Stock Exchange and provides innovative hardware and software applications for precision agriculture worldwide.

**Economic and Market Trends**

*Agriculture Markets*

Soft commodity prices and the strong US dollar resulted in a decline in net farm income and weaker sales of new farm equipment in the US (the Company's primary market) throughout 2016. US corn prices were approximately 9% lower in 2016 over 2015 while U.S. wheat prices have decreased approximately 18%. When commodity prices decline, farmers must cut costs, often choosing to retain existing equipment over choosing to purchase new equipment. As previously disclosed, the slowdown in equipment sales was not unexpected.

In February 2017, the US Department of Agriculture ("USDA") reported net cash farm income is forecast to increase by \$1.6 billion, or 1.8% in 2017. Despite forecasted increases in net cash farm income in 2017, net farm income is forecast to decline by 8.7% marking the fourth consecutive year of anticipated decreases in net farm income.

Per the USDA, cash receipts are expected to remain largely unchanged in 2017, declining by an estimated 0.3%. The largest single change forecast is in wheat receipts, which is expected to fall 16.6% compared to 2016 receipts. Offsetting this decrease is a forecasted 21.5% increase in cotton receipts.

Management views the 2017 fundamentals of its global agriculture markets to be neutral to slightly down with expectations of new machine sales to remain slightly down and existing field equipment sales to be slightly up. Sales are expected to lag slightly behind the agriculture cycle and related upturn due to the Company's customer base and mix of machine manufacturers. The outlook for 2018 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.

## Currency Markets

The Company's financial results are impacted by foreign currency volatility – particularly the Canadian/United States ("US") dollar exchange rate. The company's consolidated financial statements are presented in US dollars, which is also the Company's functional currency.

The Company sells products in US dollars, however, a portion of the Company's expenses are incurred in Canadian and Australian dollars. As a result, a stronger US dollar is positive for the Company's earnings as Canadian and Australian dollar denominated expenses are lower when translated at a stronger US dollar foreign exchange rate. However, from a business perspective, the stronger US dollar relative to global currencies increases the net price of the Company's products to international customers as sales are made in US dollars – which could result in lower sales.

The average foreign exchange rate for the first quarter of 2017 was \$1.3230 Cdn/US, down 3.7% from \$1.3732, the average first quarter of 2016 rate.

Canadian and US dollar exchange rates during 2015, 2016 and 2017 were as follows:

	Quarter Ended							
	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31
	2015	2015	2015	2016	2016	2016	2016	2017
Quarterly average	\$ 1.2294	\$ 1.3094	\$ 1.3346	\$ 1.3732	\$ 1.2886	\$ 1.3051	\$ 1.3341	\$ 1.3230
Quarter end	\$ 1.2474	\$ 1.3394	\$ 1.3840	\$ 1.2971	\$ 1.3009	\$ 1.3117	\$ 1.3427	\$ 1.3322

These foreign exchange rates are sourced from the Bank of Canada. Quarterly averages are the average of the three months' noon rate for the period. The quarter end rate is equal to the Bank of Canada Noon Day Rate on the last published day in the quarter.

## Summary of Quarterly Results

(000's)	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017
Sales	\$7,741	\$7,567	\$11,644	\$15,489	\$11,894	\$6,657	\$8,224	\$14,573
Gross margin	3,245	3,297	2,763	6,674	4,780	2,190	2,884	6,827
	42%	44%	24%	43%	40%	33%	35%	47%
Expenses:								
Research and development	896	1,424	2,896	1,949	2,028	1,756	2,003	2,083
Sales and marketing	1,235	945	1,693	1,918	1,809	1,570	1,641	1,903
General and administrative	1,689	1,727	3,163	2,540	2,221	1,939	2,055	2,226
	3,820	4,096	7,752	6,407	6,058	5,265	5,699	6,212
Operating income (loss)	(575)	(799)	(4,989)	267	(1,278)	(3,075)	(2,815)	615
Goodwill impairment	-	-	-	-	-	11,301	-	-
Intangible impairment	-	-	4,714	-	-	-	-	-
Foreign exchange (gain) loss	2	16	81	23	(60)	7	(3)	(4)
Interest (income) expense	(1)	(1)	1	-	(1)	1	-	1
Other income	-	(22)	-	-	(39)	(22)	-	(3,000)
(Gain) loss on sale of property, plant and equipment	39	(2)	96	1	29	(5)	86	-
(Gain) on sale of other assets, net of liabilities	(1,623)	-	-	-	-	-	-	-
	(1,583)	(9)	4,892	24	(71)	11,282	83	(3,003)
Net income (loss) before income taxes	1,008	(790)	(9,881)	243	(1,207)	(14,357)	(2,898)	3,618
Income taxes	-	-	-	-	-	-	-	-
Net income (loss)	1,008	(790)	(9,881)	243	(1,207)	(14,357)	(2,898)	3,618
Earnings (loss) per common share:								
Basic and diluted	\$0.01	(\$0.01)	(\$0.09)	\$0.00	(\$0.01)	(\$0.12)	(\$0.02)	0.03
Weighted Average Diluted Shares	72,331	72,322	122,829	124,001	123,732	124,848	123,773	124,307

**Sales by geographic region on a quarterly basis are as follows:**

For the Quarter Ended

(000's)	30-Jun 2015	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017
Americas	\$3,992	\$4,002	\$5,312	\$7,456	\$7,765	\$4,581	\$4,677	\$8,254
APAC	364	1,076	908	3,013	520	584	546	1,026
EMEA	3,385	2,489	5,424	5,020	3,609	1,492	3,001	5,293
	\$7,741	\$7,567	\$11,644	\$15,489	\$11,894	\$6,657	\$8,224	\$14,573

In addition to the agriculture market downturn noted above, 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 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 sales 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 OEM environment remains uncertain with variations of adoption from the regions.
3. The acquisition of Novariant Inc. in the fourth quarter of 2015.

**Quarter Ended March 31, 2017 versus Quarter Ended March 31, 2016**

**Revenues**

For the quarter ended March 31, 2017, revenues were \$14.6 million representing a decrease of 6% from \$15.5 million in the same period of 2016.

(000's)	2017	2016	Change
Agriculture	\$ 14,573	\$ 15,489	(6%)

**Sales by geographic region**

(000's)	2017	2016	Change
Americas	\$ 8,254	\$ 7,456	11%
APAC	1,026	3,013	(66%)
EMEA	5,293	5,020	5%
	\$ 14,573	\$ 15,489	(6%)

In the first quarter of 2017, revenue in the Americas increased by \$0.8 million or 11%, due to increased sales within the United States of \$0.9 million which was offset by decreased sales into South America of \$0.1 million. Sales in APAC saw a decrease of \$2.0 million due to decreased sales into China. Sales in the EMEA region also saw an increase of \$0.3 million due to increased sales into Germany and the Netherlands.

Sales to customers in the Americas represented 57% of total revenues in the first quarter of 2017 (2016 - 48%). Sales in APAC represented 7% of total revenues in the first quarter of 2017 (2016 – 19%). EMEA sales represent 36% of total revenues for the period (2016 – 33%).

### ***Gross Margins***

Gross margins were \$6.8 million for the quarter, up from gross margins of \$6.7 million in 2016. Gross margins, as a percentage of revenue, were 47% in 2017 compared to 43% in 2016. There were no significant selling price changes from the first quarter of 2016 to the first quarter of 2017. Of the four percent increase in gross margin over the same quarter of the prior year, 2% is due to a release of fair value step up on Novariant inventory previously acquired in the fourth quarter of 2015. This inventory had been marked up to fair value at the time of acquisition in accordance with purchase accounting standards. The release totaling \$0.3 million was incurred in the first quarter of 2016; no such expense was incurred in the first quarter of 2017. In addition, 1% of the gross margin increase is due to decreased compensation costs allocated to the Cost of sales line item current quarter versus year ago quarter. The remaining 1% increase in gross margin is due to decreased spending as a percentage of revenue in freight, supplies, and other operational accounts.

### ***Expenses***

Total operating expenses for the quarter were \$6.2 million in 2017, down by 3% or \$0.2 million from \$6.4 million in 2016. A break out of expenses by line item follows.

Research and development expenditures of \$2.1 million increased from \$1.9 million in 2016 representing an increase of \$0.2 million or 11%. The majority of this expense increase relates to non-recurring engineering (“NRE”) billings issued in the first quarter of 2016 totaling \$0.3 million. No such billings were issued in the first quarter of 2017 which would have reduced current quarter expenses.

Sales and marketing expenses for the period were \$1.9 million in 2017, remaining flat compared to \$1.9 million in 2016.

General and administrative expenses for the first quarter of 2017 were \$2.2 million compared to \$2.5 million in 2016 representing a decrease of \$0.3 million or 12%. This decrease is due to a \$0.2 million decrease in employee compensation costs and a \$0.1 million decrease in stock based compensation costs allocated to the General and administrative line item quarter versus quarter.

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

For the first quarter of 2017, the company recorded \$3.0 million of interest and 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. No interest and other income was recorded in the first quarter of 2016.

During the quarter, the Company realized a foreign exchange gain of \$4 thousand compared to a loss of \$23 thousand during the same quarter in 2016.

### ***Income Taxes***

The Company did not recognize any income tax benefit or expense in either the first quarter of 2017 or 2016.

### ***Net Income (Loss)***

In the first quarter of 2017, the Company realized net income from continuing operations of \$3.6 million or \$0.03 per share (basic and diluted), compared to a net income from continuing operations of \$0.2 million or \$0.00 per share (basic and diluted) in the first quarter of 2016.

## Quarter Ended March 31, 2017 versus Quarter Ended December 31, 2016

### Revenues

Revenues during the quarters were as follows:

(000's)	Q1 2017	Q4 2016	Change
Agriculture	\$ 14,573	\$ 8,224	77%

Sales by region for the first quarter of 2017 and the fourth quarter of 2016 are as follows:

(000's)	Q1 2017	Q4 2016	Change
Americas	\$ 8,254	\$ 4,677	76%
APAC	1,026	546	88%
EMEA	5,293	3,001	76%
	\$ 14,573	\$ 8,224	77%

Revenues for the first quarter of 2017 were \$14.6 million, representing an increase of \$6.3 or 77%. Revenue in the Americas increased by \$3.6 million or 76% due to increased sales into the United States of \$3.5 million and increased sales into Canada of \$0.1 million. Sales in APAC saw an increase of \$0.5 million due to increased sales into China. Sales in the EMEA region also saw an increase of \$2.3 million due largely to increased sales into Germany (\$1.7 million) and France (\$0.5 million).

Sales to customers in the Americas represented 57% of total revenues in both the first quarter of 2017 and in the fourth quarter of 2016. Sales in APAC represented 7% of total revenues in both the first quarter of 2017 and in the fourth quarter of 2016. EMEA sales represent 36% of total revenues in both the first quarter of 2017 and in the fourth quarter of 2016.

### Gross Margins

Gross margins in the first quarter of 2017 were \$6.8 million (47%) compared to \$2.9 million (35%) in the fourth quarter of 2016. Of the 12% increase in gross margin as a percentage of revenue, 4% relates to a decrease in material costs quarter versus quarter. While compensation costs allocated to the Cost of sales line item were \$0.6 million in both the fourth quarter of 2016 and the first quarter of 2017, the increase in revenue quarter versus quarter caused compensation costs as a percentage of revenue to be 8% versus 4%, explaining 4% of the gross margin as a percentage of revenue increase. In addition, recorded in the fourth quarter of 2016 were warranty and obsolescence reserves of \$0.4 million versus \$0.3 million of reserves recorded in the first quarter of 2017 which accounts for 3% of the increase. There were no significant selling price changes from the fourth quarter of 2016 to the first quarter of 2017.

### Expenses

Operating expenses were \$6.2 million in the first quarter of 2017, up \$0.5 million or 9% from \$5.7 million in the fourth quarter of 2016. A break out of expenses by line item follows.

Research and development expenses were \$2.1 million for the period, representing an increase of \$0.1 million or 5% from \$2.0 million in the previous quarter. The majority of the \$0.1 million increase relates to increases in project specific costs.

Sales and marketing expenses of \$1.9 million increased by \$0.3 million (19%) from \$1.6 million in the fourth quarter of 2016. Of this increase, \$0.1 million relates to increased spending on sales promotions and marketing

expenses and \$0.1 million relates to increased employee compensation costs. The remaining \$0.1 million increase is a combination of other items including travel, telephone and other expenses.

General and administrative expenses of \$2.2 million increased \$0.1 million, or 5%, from \$2.1 million in the fourth quarter of 2016. This increase relates almost entirely to additional 2016 year-end audit fees incurred in the first quarter of 2017 versus those incurred in the fourth quarter of 2016.

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

During the first quarter of 2017, the company recorded \$3.0 million of interest and other income associated with its entry into a strategic agreement with Hemisphere GNSS, Inc. (Hemisphere), 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. In the fourth quarter of 2016, the Company recorded nil interest and other income.

The Company reported a foreign exchange gain in the first quarter of 2017 of \$4 thousand, compared to a gain of \$3 thousand in the previous quarter. Foreign exchange gains and losses arise primarily from the translation and settlement of non-US dollar working capital.

For the period ended March 31, 2017, the company earned other income of \$3.0 million. No such income was recorded for the quarter ended December 31, 2016.

### ***Income Taxes***

The Company did not incur income tax expense in either the first quarter of 2017 or the fourth quarter of 2016.

### ***Earnings (Loss)***

In the first quarter of 2017, the Company generated net income of \$3.6 million or \$0.03 per share (basic and diluted), compared to a net loss of \$2.9 million or (\$0.02) per share (basic and diluted) in the fourth quarter of 2016.

### ***Liquidity and Capital Resources***

#### ***Working Capital***

The Company held cash of \$16.0 million at March 31, 2017 compared to \$12.9 million at December 31, 2016. Working capital was \$26.7 million, up from \$22.4 million at December 31, 2016. The primary items impacting working capital during the three-month period were:

- Accounts receivable at March 31, 2017 was \$10.0 million versus \$4.8 million at December 31, 2016.
- Inventories consist of components, work in process and finished goods related to the products sold by the Company. Inventory was \$5.7 million at March 31, 2017 versus \$8.2 million at December 31, 2016.
- Accounts payable and accrued expenses at March 31, 2017 were \$5.1 million versus \$3.7 million at December 31, 2016.
- Cash generated from continuing operations was \$3.1 million in the three months ended March 31, 2017 compared to cash generated of \$1.7 million in the three months ended March 31, 2016.

The Company obtained an operating line of credit with its bank for \$3.0 million in February 2014. As of March 31, 2017, 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, revenues 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 March 31, 2017, 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 sales. Any expenses directly relating to warranty claims are expected to offset the provision in period.

## 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, 2016. 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.