AgJunction®

Interim Management's Discussion and Analysis

Three and six month periods ended June 30, 2017

The following discussion and analysis is effective as of August 10, 2017 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, 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. All amounts stated in this Management Discussion and Analysis ("MD&A") are in US thousand dollars unless otherwise stated. References throughout this document to AgJunction or the "Company" all refer to AgJunction Inc. and its subsidiaries.

Company Description

AgJunction is a leading provider of innovative hardware and software solutions for precision agriculture worldwide. AgJunction holds numerous patents and markets its products and services under leading brand names including Outback Guidance® and Satloc®, and its autosteering and machine control solutions are critical components in over 30 of the world's leading implement and precision product manufacturers. AgJunction is headquartered in Hiawatha, Kansas, with facilities in Silicon Valley, Arizona, Canada, and Australia, and is listed on the Toronto Stock Exchange (TSX) under the symbol "AJX."

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 US 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 of June 2017, commodity prices have trended upward with US corn prices up 8% and US wheat prices up 28% over December 2016.

In February 2017, the US Department of Agriculture ("USDA") reported net cash farm income, a profitability measure the equivalent of earnings after interest but before depreciation, amortization, and other expense, 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.

Summary of Quarterly Results

(000's)	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017
Sales	$7,567	$11,644	$15,489	$11,894	$6,657	$8,224	$14,573	$13,341
Gross margin	3,297	2,763	6,674	4,780	2,190	2,884	6,827	5,515
	44%	24%	43%	40%	33%	35%	47%	41%
Expenses:								
Research and development	1,424	2,896	1,949	2,028	1,756	2,003	2,083	1,861
Sales and marketing	945	1,693	1,918	1,809	1,570	1,641	1,903	1,960
General and administrative	1,727	3,163	2,540	2,221	1,939	2,055	2,226	2,218
	4,096	7,752	6,407	6,058	5,265	5,699	6,212	6,039
Operating income (loss)	(799)	(4,989)	267	(1,278)	(3,075)	(2,815)	615	(524)
Goodwill impairment	-	-	-	-	11,301	-	-	-
Intangible impairment	-	4,714	-	-	-	-	-	-
Foreign exchange (gain) loss	16	81	23	(60)	7	(3)	(4)	(22)
Interest (income) expense	(1)	1	-	(40)	1	-	1	1
Other income	(22)	-	-	-	(22)	-	(3,000)	-
(Gain) loss on sale of property, plant and equipment	(2)	96	1	29	(5)	86	-	18
	(9)	4,892	24	(71)	11,282	83	(3,003)	(3)
Net income (loss) before income taxes	(790)	(9,881)	243	(1,207)	(14,357)	(2,898)	3,618	(521)
Income taxes	-	-	-	-	-	-	-	19
Net income (loss)	(790)	(9,881)	243	(1,207)	(14,357)	(2,898)	3,618	(540)
Earnings (loss) per common share:								
Basic and diluted	($0.01)	($0.09)	$0.00	($0.01)	($0.12)	($0.02)	0.03	0.00
Weighted Average Diluted Shares	72,322	122,829	124,001	123,732	124,848	123,773	124,307	128,268

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

For the Quarter Ended

	30-Sep 2015	31-Dec 2015	31-Mar 2016	30-Jun 2016	30-Sep 2016	31-Dec 2016	31-Mar 2017	30-Jun 2017
Americas	$4,002	$5,312	$7,456	$7,765	$4,581	$4,677	$8,254	$7,085
APAC *	1,076	908	3,013	520	584	546	1,026	822
EMEA **	2,489	5,424	5,020	3,609	1,492	3,001	5,293	5,434
	$7,567	$11,644	$15,489	$11,894	$6,657	$8,224	$14,573	$13,341

* 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. 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, drive a large component of the Company's sales. 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 sales.

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 is still in the early stages of adoption. Variations in adoption rate by region has been observed.

Quarter Ended June 30, 2017 versus Quarter Ended June 30, 2016

Sales

For the quarter ended June 30, 2017, sales were $13.3 million representing an increase of 12% from $11.9 million in the same period of 2016.

	2017	**2016**	**Change**
Agriculture	$ 13,341	$ 11,894	12%

Sales by geographic region

	2017	**2016**	**Change**
Americas	$ 7,085	$ 7,765	(9%)
APAC	822	520	58%
EMEA	5,434	3,609	51%
	$ 13,341	$ 11,894	12%

In the second quarter of 2017, sales in the Americas decreased by $0.7 million or 9%, due largely to the United States. This decrease in United States sales was spread across aftermarket, air, value added reseller (VAR) and OEM customers. Sales in APAC saw a slight increase of $0.3 million due to increased sales into Australia and China. Sales in the EMEA region also saw an increase of $1.8 million due to stronger OEM sales into France and Germany.

Sales to customers in the Americas represented 53% of total sales in the second quarter of 2017 (2016 - 66%) while the APAC region represented 6% (2016 – 4%) and the EMEA region represented 41% (2016 – 30%).

Gross Margins

Gross margins were $5.5 million for the quarter, up from gross margins of $4.8 million in 2016. Gross margins, as a percentage of sales, were 41% in 2017 compared to 40% in 2016. Margins were 1% favorable in the period due to production overhead being absorbed by a higher sales volume compared to the second quarter of 2016. Production overhead costs increased approximately $.2 million in the second quarter 2017 versus the second quarter 2016. Warranty, obsolescence and scrap increased by $0.3 million in total and were offset by a decrease of freight and shipping supplies of $.2 million in the second quarter of 2017 versus the same quarter of 2016. There were no significant selling price changes quarter versus quarter.

Expenses

Total operating expenses for the quarter were $6.0 million in 2017, down by 2% or $0.1 million from $6.1 million in 2016. A break out of expenses by line item follows.

Research and development expenditures of $1.9 million decreased from $2.0 million in 2016 representing a decrease of $0.1 million or 5%. This decrease relates largely to a $0.1 million reduction in compensation costs and a $0.1 million reduction in amounts paid to external consultants. Offsetting this $0.2 million reduction in expense is a $0.1 million increase in engineering project costs.

Sales and marketing expenses for the period were $2.0 million in 2017, up by 11% or $0.2 million from $1.8 million in 2016, due to an increase of $0.1 million in compensation costs and a $0.1 million increase in amounts paid to external consultants.

General and administrative expenses were $2.2 million for the second quarter of both 2017 and 2016.

Interest, Foreign Exchange, and Other Income

For the second quarter of 2017, the company recorded $1 of interest expense versus $40 of interest income in the comparative quarter of 2016.

During the quarter, the Company realized a foreign exchange gain of $22 compared to a gain of $60 during the same quarter in 2016. 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 loss on the sale and/or disposal of property, plant and equipment in the second quarter of 2017 totaling $18 versus a loss of $29 in the same quarter of 2016.

Income Taxes

The Company recognized income tax expense in the second quarter of 2017 totaling $19. No such expense was recorded in the second quarter of 2016.

Net Income (Loss)

In the second quarter of 2017, the Company realized net loss from continuing operations of $0.5 million or $0.00 per share (basic and diluted), compared to net loss from continuing operations of $1.2 million or ($0.01) per share (basic and diluted) in the second quarter of 2016.

Quarter Ended June 30, 2017 versus Quarter Ended March 31, 2017

Sales

Sales during the first and second quarters were as follows:

	Q2 2017	Q1 2017	Change
Agriculture	$ 13,341	$ 14,573	(8%)

Sales by region for the first and second quarters of 2017 are as follows:

	Q2 2017	Q1 2017	Change
Americas	$ 7,085	$ 8,254	(14%)
APAC	822	1,026	(20%)
EMEA	5,434	5,293	3%
	$ 13,344	$ 14,573	(8%)

Americas sales for the quarter were down $1.2 million (14%) from the first quarter of 2017 due to decreased sales into the United States of $1.9 million, relating largely to decreased demand of one VAR customer. Offsetting this decrease were increased sales into Canada and South America of $0.5 million and $0.2 million, respectively. The sales decrease in APAC of $0.2 million (20%) from the previous period is due to decreased sales into China of $0.5 million, offset by increased sales into Australia of $0.3 million. Sales in the EMEA region showed a slight increase of $0.1 million or 3% which relates largely to increased OEM sales into France.

Gross Margins

Gross margins in the second quarter of 2017 were $5.5 million (41%) compared to $6.8 million (47%) in the first quarter of 2017. Expense increases of $0.1 million for obsolescence and $0.1 million for warranties resulted in a 2% decrease in gross margin versus the previous quarter. Product mix drove another $0.3 million (2%) decrease in gross margin from the previous quarter. Also negatively impacting gross margin in the current quarter were production overhead costs being absorbed by a lower sales volume when compared against the first quarter. This accounted for an additional 2% decrease in gross margin. There were no significant selling price changes from the first quarter of 2017 to the second quarter of 2017.

Expenses

Operating expenses were $6.0 million in the second quarter of 2017, down $0.2 million or 3% from $6.2 million in the first quarter of 2017. A break out of expenses by line item follows.

Research and development expenses were $1.9 million for the period, representing a decrease of $0.2 million or 10% from the previous quarter. This decrease relates to decreased spending on engineering projects.

Sales and marketing expenses of $2.0 million increased by $0.1 million (5%) from $1.9 million in the first quarter of 2017. This increase largely relates to compensation costs associated with the termination of one Vice President of Sales.

General and administrative expenses were $2.2 million in both the second and first quarters of 2017.

Interest, Foreign Exchange, and Other Income

Interest expense was $1 in both the second and first quarters of 2017. In addition, during the first quarter of 2017, the company recorded $3.0 million 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 second quarter of 2017 of $22, compared to a gain of $4 in the previous quarter. 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 loss on the sale and/or disposal of property, plant and equipment in the second quarter of 2017 totaling $18. No gains or losses associated with property, plant and equipment were incurred in the first quarter of 2017.

Income Taxes

The Company recognized income tax expense in the second quarter of 2017 totaling $19. No such expense was recorded in the first quarter of 2017.

Earnings (Loss)

In the second quarter of 2017, the Company realized net loss from continuing operations of $0.5 million or $0.00 per share (basic and diluted), compared to net income from continuing operations of $3.6 million or $0.03 per share (basic and diluted) in the first quarter of 2017.

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Sales

Sales during the six months ended June 30, 2017 and 2016 were as follows:

	YTD 2017	YTD 2016	Change
Agriculture	$ 27,914	$ 27,384	2%

Sales by region for the first half periods of 2016 and 2016 are as follows:

	YTD 2017	YTD 2016	Change
Americas	$ 15,339	$ 15,221	1%
APAC	1,848	3,533	(48%)
EMEA	10,727	8,630	24%
	$ 27,914	$ 27,384	2%

Americas sales for the six months ended June 30, 2017 were up $0.1 million or 1% from the same period of 2016. The sales decrease into the APAC region of $1.7 million or 48% from the previous period is due to decreased OEM sales into China, offset by increased sales of $0.3 million into Australia. Sales in the EMEA region increased $2.1 million due largely to increased OEM sales into France and Germany. Also slightly benefiting the EMEA region were sales of $0.2 million into the Netherlands and Spain.

Gross Margins

Gross margins for the six months ended June 30, 2017 were $12.3 million (44%) compared to $11.5 million (42%) in the same period of 2016. Of the 2% increase in gross margin over the same six months of the prior year, 1% 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 acquisition accounting standards. The release totaling $0.3 million was incurred in the first half of 2016; no such expense was incurred in the first half of 2017. The additional 1% of gross margin increase is due to decreased production overhead costs as a percentage of sales. There were no significant selling price changes period versus period.

Expenses

Operating expenses were $12.3 million in the first half of 2017, down $0.2 million or 2% from $12.5 million in the first half of 2016. A break out of expenses by line item follows.

Research and development expenses were $3.9 million for the period, representing a decrease of $0.1 million or 3% from $4.0 million in the first six months 2016. This decrease relates largely to a $0.4 million reduction in compensation costs and a $0.2 million reduction in amounts paid to external consultants. Offsetting this $0.6 million reduction in expense is a $0.5 million increase in engineering project costs in the first half of 2017 versus the same period of 2016.

Sales and marketing expenses of $3.9 million increased by $0.2 million (5%) from $3.7 million in the first six months of 2016. This $0.2 million increase relates to compensation costs of $0.1 million and amounts paid to external consults of $0.1 million.

General and administrative expenses of $4.4 million decreased $0.3 million, or 6%, from $4.7 million in the same period of 2016. This $0.3 million increase relates to compensation costs of $0.2 million and amounts paid to external consults of $0.1 million.

Interest, Foreign Exchange, and Other Income

For the first half 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. Interest and other income in the six months ended June 30, 2016 was $40.

The Company reported a foreign exchange gain in the first half of 2017 of $27, compared to a gain of $36 in the same period of 2016. 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 loss on the sale and/or disposal of property, plant and equipment in the first half of 2017 totaling $18 versus a loss of $30 in the first half of 2016.

Income Taxes

The Company recognized income tax expense of $19 for the six months ended June 30, 2017. No such expense was recorded in the same period of 2016.

Earnings (Loss)

In the first half of 2017, the Company generated net income of $3.1 million or $0.02 per share (basic and diluted), compared to a net loss of $1.0 million or ($0.01) per share (basic and diluted) in the first six months of 2016.

Liquidity and Capital Resources

Working Capital

The Company held cash of $18.8 million at June 30, 2017 compared to $12.9 million at December 31, 2016. Working capital was $24.8 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 June 30, 2017 was $5.4 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 $5.6 million at June 30, 2017 versus $8.2 million at December 31, 2016. This decrease in inventory relates to better inventory management.
- Accounts payable and accrued expenses at June 30, 2017 were $5.3 million versus $3.7 million at December 31, 2016.
- Cash generated from continuing operations was $7.9 million in the six months ended June 30, 2017 compared to cash generated of $2.3 million in the six months ended June 30, 2016. Of this $5.6 million change, $4.0 million relates to differences in net income (loss) while the remainder relates to changes in non-cash operating working capital period versus period.

The Company obtained an operating line of credit with its bank for $3.0 million in February 2014. As of June 30, 2017, the balance was nil.

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, sales 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, 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.