AgJunction®

# Interim Management's Discussion and Analysis

Three and nine month periods ended September 30, 2013

The following discussion and analysis is effective as of November 14, 2013 and should be read together with the unaudited condensed consolidated interim financial statements of AgJunction Inc. ("AgJunction" or the "Company") for the three and nine month periods ended September 30, 2013 and the accompanying notes. Additional information relating to AgJunction, 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 and which is supplemental to the unaudited condensed consolidated interim financial statements and notes for the three and nine month periods ended September 30, 2013. 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. In prior periods, the Company organized its activities along two primary segments: agriculture products and precision products for non-agriculture markets, however, as further described in this MD&A, the Company is restructuring its operations to focus on its agriculture business. As a result, the non-agriculture activities of the Company are disclosed in the Company's consolidated financial statements, and this MD&A, as discontinued operations.

## Currency Markets

The Company's financial results are impacted by foreign currency volatility – particularly the Canadian/United States ("US") dollar exchange rate.

The Company has transferred all manufacturing activities from the Calgary location to an external manufacturer effective January 31, 2013. In addition to the transfer, the closure of the Calgary office on June 30, 2013, significantly reduced the Company's foreign currency exchange exposure.

The average foreign exchange rate for third quarter of 2013 was $1.0386 Cdn/US, up by 4.4% from the average 2012 rate of $.9948 Cdn/US.

Canadian and US dollar exchange rates prevailing over the last eight quarters were as follows:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec 31 2011 | Mar 31 2012 | Jun 30 2012 | Sep 30 2012 | Dec 30 2012 | Mar 31 2013 | Jun 31 2013 | Sep 30 2013 |
| Quarterly average | $ 1.0236 | $ 1.0012 | $ 1.0102 | $ 0.9948 | $ 0.9913 | $ 1.0089 | $1.0231 | $1.0386 |
| Quarter end | $ 1.0170 | $ 0.9991 | $ 1.0191 | $ 0.9837 | $ 0.9949 | $ 1.0156 | $1.0512 | $1.0285 |

These foreign exchange rates are sourced from the Bank of Canada. Quarterly averages are the average of the three months' average 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) | 31-Dec 2011 | 31-Mar 2012 | 30-Jun 2012 | 30-Sep 2012 | 31-Dec 2012 | 31-Mar 2013 | 30-Jun 2013 | 30-Sep 2013 |
|---|---|---|---|---|---|---|---|---|
| Sales | $9,081 | $19,021 | $15,744 | $10,512 | $10,155 | $16,611 | $16,304 | $11,438 |
| Gross margin | 4,330 | 8,983 | 6,693 | 4,777 | 4,033 | 7,748 | 7,013 | 5,205 |
| | 48% | 47% | 43% | 45% | 40% | 47% | 43% | 46% |
| Expenses | | | | | | | | |
| Research and development | 2,283 | 2,257 | 2,755 | 2,288 | 2,411 | 2,288 | 2,325 | 1,676 |
| Sales and marketing | 2,476 | 3,015 | 2,551 | 2,647 | 2,297 | 2,350 | 2,280 | 1,945 |
| General and administrative | 1,123 | 1,263 | 1,380 | 1,368 | 1,462 | 1,543 | 1,422 | 1,531 |
| Acquisition costs | - | 117 | - | - | - | - | - | - |
| Restructuring costs | - | - | - | 471 | 5,683 | 156 | 69 | 18 |
| | 5,882 | 6,652 | 6,686 | 6,774 | 11,853 | 6,337 | 6,097 | 5,170 |
| Operating income (loss) before undernoted items | (1,552) | 2,331 | 7 | (1,997) | (7,820) | 1,411 | 916 | 35 |
| Goodwill impairment | - | - | - | - | 21,000 | - | - | - |
| Revaluation of contingent consideration | - | - | - | - | 412 | - | - | - |
| Foreign exchange (gain) loss | 52 | 76 | 22 | (7) | 18 | (52) | (222) | (30) |
| Interest and other (income) loss | (2) | - | (2) | - | - | (7) | 3 | (11) |
| Income (Loss) before income taxes | (1,602) | 2,255 | (13) | (1,990) | (29,250) | 1,470 | 1,134 | 76 |
| Income taxes | - | 49 | - | - | - | - | - | 44 |
| Net income (loss) from continuing operations | (1,602) | 2,206 | (13) | (1,990) | (29,250) | 1,470 | 1,134 | 32 |
| Comprehensive income (loss) | 98 | 115 | (147) | 123 | (91) | - | - | - |
| Net and comprehensive income (loss) before discontinued operations | (1,504) | 2,321 | (160) | (1,867) | (29,341) | 1,470 | 1,134 | 32 |
| Comprehensive gain (loss) from discontinued operations | (983) | (732) | (464) | (800) | (3,555) | 3,474 | (913) | (29) |
| Comprehensive income (loss) | (2,487) | 1,589 | (624) | (2,667) | (32,896) | 4,944 | 221 | 3 |
| Earnings (loss) per common share: | | | | | | | | |
| Basic and diluted | ($0.04) | $0.02 | ($0.01) | ($0.04) | ($0.50) | $0.07 | $0.00 | $0.00 |
| Basic and diluted - Continuing operations | ($0.03) | $0.03 | ($0.00) | ($0.03) | ($0.45) | $0.02 | $0.02 | $0.00 |
| Basic and diluted - Discontinued operations | ($0.01) | ($0.01) | ($0.01) | ($0.01) | ($0.05) | $0.05 | ($0.02) | $0.00 |
| *Weighted Average Diluted shares* | 60,276 | 64,478 | 69,935 | 65,682 | 65,832 | 67,076 | 68,365 | 68,937 |

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

| (000's) | For the Quarter Ended<br>31-Dec 2011 | 31-Mar 2012 | 30-Jun 2012 | 30-Sep 2012 | 31-Dec 2012 | 31-Mar 2013 | 30-Jun 2013 | 30-Sep 2013 |
|---|---|---|---|---|---|---|---|---|
| United States | $4,996 | $10,926 | $5,336 | $4,600 | $5,927 | $8,761 | $6,717 | $4,295 |
| Canada | 1,332 | 3,613 | 5,016 | 2,113 | 1,412 | 2,247 | 3,721 | 1,969 |
| Europe | 716 | 2,416 | 2,554 | 1,372 | 1,536 | 3,655 | 3,593 | 3,191 |
| Australia | 803 | 1,107 | 1,060 | 449 | 483 | 401 | 448 | 248 |
| Other | 1,234 | 959 | 1,778 | 1,977 | 797 | 1,547 | 1,825 | 1,735 |
| | $9,081 | $19,021 | $15,744 | $10,512 | $10,155 | $16,611 | $16,304 | $11,438 |

**Quarter Ended September 30, 2013 versus Quarter Ended September 30, 2012**

***Revenues***

For the three months ended September 30, 2013 revenues were $11.4 million representing an increase of 8.8% from $10.5 million for the same period of 2012.

| (000's) | **Q3 2013** | **Q3 2012** | **Change** |
|---|---|---|---|
| Revenue | $11,438 | $ 10,512 | 8.8% |

Strong OEM and Agronomy Services results for the quarter were offset by reduced sales in our Outback and Air product lines compared to the same quarter in 2012.

| (000's) | **Q3 2013** | **Q3 2012** | **Change** |
|---|---|---|---|
| Outback North America | $3,780 | $ 3,882 | (2.6%) |
| Outback Australia | 248 | 249 | (0.4%) |
| OEM | 5,476 | 4,318 | 26.8% |
| Air | 1,236 | 1,567 | (21.1) |
| Agronomy Services | 698 | 496 | 40.7% |
| Total | $11,438 | $ 10,512 | 8.8% |

***Gross Margins***

Gross margins of $5.2 million for the quarter were $0.4 million higher than the same quarter of 2012 due to the increase in sales. Gross margins, as a percentage of revenue, were 46% during the quarter compared to 45% in 2012

### *Expenses*

Total operating expenses for the quarter were $5.2 million compared to $6.8 million in 2012, a reduction of 23.7%. Research and development expenditures of $1.7 million, declined by $0.6 million, or 26.7%, compared to $2.3 million during the third quarter of 2012, as the Company continues to realize efficiencies from outsourcing its manufacturing operations. Sales and marketing expenses of $1.9 million, declined by $0.7 million, or 26.5%, compared to $2.6 million during the third quarter of 2012, due to lower compensation costs associated with the corporate restructuring, as well as lower advertising and marketing costs. General and administrative expenses of $1.5 million, increased by $0.1 million, or 11.9%, compared to $1.4 during the third quarter of to 2012. Restructuring costs were $18 thousand during the third quarter of 2013.

### *Other*

During the quarter the Company had a foreign exchange gain of $30 thousand compared to a gain of $7 thousand during the same quarter in 2012.

### *Discontinued Operations*

Net loss from discontinued operations of $29 thousand incurred during the quarter related to the sale of the non-agricultural assets and the Calgary geographical area of operations closure. The Company incurred a net loss from discontinued operations of $0.8 million during the comparative period in 2012.

### *Earnings (Loss)*

The Company generated net income from continuing operations of $32 thousand, or $0.00 per share (basic and diluted) in the third quarter of 2013 compared to a net loss from continuing operations of $1.9 million, or $0.03 per share (basic and diluted) in the third quarter of 2012.

The Company’s comprehensive income was $3 thousand, or $0.00 per share (basic and diluted) during the quarter compared to comprehensive loss of $2.7 million or ($0.04) per share (basic and diluted) in 2012.

## Nine Months Ended September 30, 2013 versus Nine Months Ended September 30, 2012

### *Revenue*

For the nine months ended September 30, 2013 revenues were $44.4 million representing a decrease of 2.0% from $45.3 million for the same period of 2012.

| (000’s) | Q3 2013 | Q3 2012 | Change |
|---|---|---|---|
| Revenue | $ 44,353 | $ 45,277 | (2.0%) |

North America was down by 12.9%, with a decline of 25.4% in Canada and 6.6% in the United States. International revenues are up by 23.6% with European and other market growth of 43.3% offset by a decline in Australia of 58.1%.

Revenues for the Outback product lines were down by 24.6%, with a decline of 23.1% in North America and 42.6% in Australia. Strong results from OEM products lifted its sales by 29.9% over the comparable period along with Agronomy Services results up by 39.5%. Air results were slightly lower, 6.8% decline compared to the previous period.

| (000's) | YTD 2013 | YTD 2012 | Change |
|---|---|---|---|
| Outback North America | $ 15,697 | $ 20,405 | (23.1%) |
| Outback Australia | 1,025 | 1,785 | (42.6%) |
| OEM | 19,124 | 14,726 | 29.9% |
| Air | 6,357 | 6,820 | (6.8%) |
| Agronomy Services | 2,150 | 1,541 | 39.5% |
| Total | $ 44,353 | $ 45,277 | (2.0%) |

***Gross Margin***

Gross margins for the nine months ended September 30, 2013 were $20.0 million (45%), compared to $20.5 million (45%) in the same period in 2012

***Expenses***

Operating expenses of $17.6 million for the nine months ended September 30, 2013 have decreased by $2.5 million, or 12.5% from the same period of 2012. Research and development expenditures of $6.3 million, declined by $1.0 million, or 13.8%, compared to $7.3 million during 2012. Sales and marketing expenses of $6.6 million, declined by $1.6 million, or 20.0%, compared to $8.2 million during 2012, due to lower compensation costs associated with the corporate restructuring, as well as lower advertising and marketing costs. General and administrative expenses of $4.5 million, increased by $0.5 million, or 12.1%, compared to $4.0 million during 2012. Restructuring costs totaled $0.2 million in nine months ended 2013 related to the closure of our Calgary facility.

***Other***

On January 31, 2013, the Company sold the business assets associated with its non-agricultural operations to the Canadian subsidiary of Beijing UniStrong Science and Technology Co. Ltd. for a total purchase price of $14.9 million. As part of the transaction the Company transferred $9.4 million of net assets to UniStrong and incurred $1.1 million in transaction-related costs resulting in gain on the sale of $4.4 million.

In the first nine months of 2013, the Company had a foreign exchange gain of $0.3 million compared to a loss of $0.1 million realized in 2012.

***Profit (Loss)***

For the nine months ended September 30, 2013, the Company generated a profit from continuing operations of $2.6 million or $0.04 per share (basic and diluted), compared to a profit from continuing operations of $0.3 million or $0.00 per share for the same period in 2012.

The Company generated comprehensive income of $5.2 million or $0.08 per share (basic and diluted) in the nine months ended September 30, 2013 compared to a loss of $1.7 million or ($0.03) per share (basic and diluted) in the previous period.

## Liquidity and Capital Resources

*Working Capital*

The Company held cash of $11.8 million at September 30, 2013 compared to $2.6 million at December 31, 2012. Working capital was $22.6 million, up from $17.2 million at December 31, 2012. The primary items impacting the cash balance during the nine months ended September 30, 2013 were:

- Accounts receivable at September 30, 2013 was $7.1 million versus $6.2 million at December 31, 2012.
- Inventories consist of components, work in process and finished goods sold by the Company. Inventory was $10.7 million at September 30, 2013 compared to inventory of $13.8 million at December 31, 2012.
- Included in provisions on the statement of financial position at September 30, 2013 is an accrual for restructuring costs of $14 thousand compared to $2.5 million at December 31, 2012.
- Cash flow from continuing operations was $1.5 million for the nine months ended September 30, 2013, compared to cash flow from continuing operations of $2.5 million in 2012. After the impact of discontinued operations, operating activities used $1.4 million of cash during 2013 compared to cash inflow of $0.5 million over the same period in 2012.
- Cash of $3.3 million was used in discontinued operations in the 2013 compared to $2.2 million in 2012.
- Contingent consideration paid for the acquisition of the AgJunction business included $0.5 million of cash. The Company repaid the loan outstanding with Export Development Canada (EDC) using $1.1 million of cash. Loan payments of $0.5 million were also paid against the Company's operating line of credit balance during the quarter.
- Total tangible capital spending in 2013 was $0.5 million (2012 - $0.8 million). Property and equipment purchased during the third quarter of 2013 included primarily computer equipment and software and research and development equipment.
- During 2013, the Company capitalized internally developed intangible costs of $1.9 million (2012 - $1.3 million). These costs are incurred pursuant to a contract with a customer under which the customer is also making non-recurring engineering ("NRE") payments to AgJunction covering a portion of the costs. The Company received NRE payments of $1.4 million in 2013 (2012 - $0.0 million).

## Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with 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 new standards, interpretations, amendments and improvements to existing standards issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") were adopted as of January 1, 2013 without any material impact to the Company's Financial Statements: IFRS 7 Financial Instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of interests in Other Entities, IFRS 13 Fair Value Measurement, and IAS 9 Employee Future Benefit.

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 estimates the future cash-flows of each of its cash generating units.
4. The Company recognizes deferred income tax assets for all deductible temporary differences, carry-forward of unused tax losses and other tax asses, to the extent that it is probable that future taxable profit will be available against they can be utilized. At September 30, 2013, there are no balances carried in the Consolidated Statement of Financial Position for such assets since it is not probable that there will be future taxable profit in order to use against these assets.
5. The Company accrues reserves for product warranty expenses for the repair or replacement of defective products sold. The warranty reserve is based on an assessment of the historical experience of the Company. If the Company suffers a decrease in the quality in its products, an increase in warranty reserve may be required.

## 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 International Financial Reporting Standards.

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.

There were no changes in disclosure controls or internal control over financial reporting that occurred during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. For further discussion of internal controls over financial reporting, refer to the Company's annual Management's Discussion and Analysis for the year ended December 31, 2012.

## 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; the cost of expanding Hemisphere GPS'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.

Condensed Consolidated Interim Financial Statements of

AgJunction®

Three and nine months ended September 30, 2013

(Unaudited - expressed in U.S. dollars)

# AgJunction Inc.

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

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 11,778,297 | $ 2,645,605 |
| Accounts receivable, net of bad debt provisions of $891,875 and $825,000 as of September 30, 2013 and December 31, 2012, respectively | 7,137,749 | 6,187,216 |
| Inventories | 10,704,519 | 13,777,915 |
| Prepayments and deposits | 774,496 | 661,790 |
| Assets held for sale (note 6) | – | 7,567,133 |
| | 30,395,061 | 30,839,659 |
| Property, plant and equipment, net | 3,424,120 | 3,438,472 |
| Intangible assets, net | 7,400,673 | 7,703,947 |
| Goodwill | 21,230,519 | 21,230,519 |
| | $ 62,450,373 | $ 63,212,597 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 4,573,802 | $ 6,449,665 |
| Bank indebtedness | – | 550,000 |
| Provisions (note 8) | 875,343 | 3,226,234 |
| Deferred revenue | 1,656,769 | 1,748,928 |
| Collateralized borrowing (note 6) | 326,885 | – |
| Finance lease | – | 52,184 |
| Current portion of contingent consideration (note 2) | 400,000 | 500,000 |
| Debt | – | 1,140,699 |
| | 7,832,799 | 13,667,710 |
| Deferred revenue | 690,679 | 746,820 |
| Contingent consideration | – | 400,000 |
| Shareholders' equity: | | |
| Share capital (note 3) | 120,702,326 | 119,341,668 |
| Equity reserve | 6,181,359 | 7,182,124 |
| Accumulated deficit | (72,956,790) | (78,125,725) |
| | 53,926,895 | 48,398,067 |
| | $ 62,450,373 | $ 63,212,597 |

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

Condensed Consolidated Statements of Comprehensive Income and Loss
(Unaudited – expressed in U.S. dollars)

| | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Sales | $ 11,437,654 | $ 10,511,800 | $ 44,352,769 | $ 45,277,154 |
| Cost of sales | 6,232,257 | 5,734,961 | 24,386,751 | 24,824,832 |
| | 5,205,397 | 4,776,839 | 19,966,018 | 20,452,322 |
| Expenses: | | | | |
| Research and development | 1,675,842 | 2,287,734 | 6,289,327 | 7,299,484 |
| Sales and marketing | 1,945,319 | 2,647,318 | 6,574,891 | 8,214,041 |
| General and administrative | 1,530,703 | 1,367,817 | 4,495,856 | 4,010,747 |
| Acquisition costs | – | – | – | 117,475 |
| Restructuring costs (note 7) | 18,287 | 471,395 | 244,226 | 471,395 |
| | 5,170,151 | 6,774,264 | 17,604,300 | 20,113,142 |
| Results from operating activities | 35,246 | (1,997,425) | 2,361,718 | 339,180 |
| Foreign exchange gain (loss) | 29,912 | 7,146 | 304,029 | (89,222) |
| Interest and other income | 11,161 | – | 15,359 | 1,773 |
| | 41,073 | 7,146 | 319,388 | (87,449) |
| Profit (loss) for the period before Income tax | 76,319 | (1,990,279) | 2,681,106 | 251,731 |
| Income tax | 43,953 | – | 43,953 | 48,650 |
| Profit (loss) for the period | 32,366 | (1,990,279) | 2,637,153 | 203,081 |
| Other comprehensive income | – | 123,000 | – | 90,750 |
| Net profit (loss) from continuing operations | 32,366 | (1,867,279) | 2,637,153 | 293,831 |
| Comprehensive gain (loss) from discontinued operations (note 5) | (29,004) | (799,366) | 2,531,782 | (1,995,414) |
| Comprehensive income (loss) | $ 3,362 | $ (2,666,645) | $ 5,168,935 | $ (1,701,583) |
| Earnings per share: | | | | |
| Basic and diluted income (loss) | $ 0.00 | $ (0.04) | $ 0.08 | $ (0.03) |
| Basic and diluted income (loss) continuing operations | $ 0.00 | $ (0.03) | $ 0.04 | $ 0.00 |
| Basic and diluted income (loss) discontinued operations | $ 0.00 | $ (0.01) | $ 0.04 | $ (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. dollars)

| | Share capital | Equity reserve | Accumulated deficit | Hedging reserve | Total equity | Number of shares |
|---|---|---|---|---|---|---|
| Balance at January 1, 2012 | $ 115,168,510 | $ 4,783,284 | $ (43,528,081) | $ – | $ 76,423,713 | 60,824,409 |
| Profit for the period | – | – | (1,824,583) | – | (1,824,583) | – |
| Accumulated other comprehensive loss | – | – | – | 123,000 | 123,000 | – |
| Issue of common shares, net of share issue cost | 4,078,919 | – | – | – | 4,078,919 | 5,447,410 |
| Business acquisition | – | 2,014,000 | – | – | 2,014,000 | – |
| Share-based payment transactions | – | 269,434 | – | – | 269,434 | – |
| Stock options exercised | 7,435 | – | – | – | 7,435 | 8,958 |
| Transfer from equity reserve on exercise of stock options | 3,621 | (3,621) | – | – | – | – |
| Balance at September 30, 2012 | 119,258,485 | 7,063,097 | (45,352,664) | 123,000 | 81,091,918 | 66,280,777 |
| Balance at December 31, 2012 | 119,341,668 | 7,182,124 | (78,125,725) | – | 48,398,067 | 66,404,215 |
| Profit for the period | – | – | 5,168,935 | – | 5,168,935 | – |
| Issue of common shares (note 3(b)) | 1,007,000 | (1,007,000) | – | – | – | 2,723,705 |
| Share-based payment transactions | – | 114,389 | – | – | 114,389 | – |
| Stock options exercised | 245,504 | – | – | – | 245,504 | 344,310 |
| Transfer from equity reserve on exercise of stock options | 108,154 | (108,154) | – | – | – | – |
| Balance at September 30, 2013 | $120,702,326 | $ 6,181,359 | $ (72,956,790) | $ – | $ 53,926,895 | 69,472,230 |

See accompanying notes to condensed consolidated interim financial statements.

# AgJunction Inc.

Condensed Consolidated Statements of Cash Flows
Nine months ended September 30, 2013 and 2012
(Unaudited - expressed in U.S. dollars)

| | 2013 | 2012 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Net profit from continuing operations | $ 2,637,153 | $ 203,081 |
| Items not involving cash: | | |
| Depreciation | 489,842 | 959,854 |
| Amortization | 772,896 | 1,492,248 |
| Share-based payment transactions | 114,389 | 201,235 |
| | 4,014,280 | 2,856,418 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (1,057,326) | (1,859,118) |
| Income tax credits receivable | – | 97,752 |
| Inventories | 3,073,396 | 162,015 |
| Prepayments and deposits | (112,706) | (187,430) |
| Accounts payable and accrued liabilities | (1,875,863) | 676,930 |
| Provisions | (2,350,891) | 100,569 |
| Deferred revenue | (148,300) | 619,792 |
| | (2,471,690) | (389,490) |
| Cash used in discontinued operations (note 5) | (2,964,469) | (1,992,791) |
| Cash flows from (used in) operating activities | (1,421,879) | 474,137 |
| Cash flows from (used in) financing activities: | | |
| Payment of finance lease liability | (52,184) | (75,519) |
| Repayment of bank loan | (550,000) | – |
| Issue of debt | – | 1,500,000 |
| Repayment of debt | (1,140,699) | (150,000) |
| Issue of share capital | 245,504 | 7,435 |
| Cash used in discontinued operations (note 5) | (299,464) | – |
| Cash flows from (used in) financing activities | (1,796,843) | 1,281,916 |
| Cash flows from (used in) investing activities: | | |
| Purchase of property and equipment | (489,700) | (612,781) |
| Intangible asset addition | (1,899,088) | (1,252,408) |
| R&D expense reimbursement | 1,429,466 | – |
| Payment of contingent consideration | (500,000) | – |
| Proceeds from sale of assets, net of cost (note 6) | 13,810,736 | – |
| Business acquisition | – | (2,071,081) |
| Cash used in discontinued operations (note 5) | – | (232,980) |
| Cash flows from (used in) investing activities | 12,351,414 | (4,169,250) |
| Increase (decrease) in cash position | 9,132,692 | (2,413,197) |
| Cash and cash equivalents, beginning of period | 2,645,605 | 6,721,314 |
| Cash and cash equivalents, end of period | $ 11,778,297 | $ 4,308,117 |

See accompanying notes to condensed consolidated interim financial statements.

**1. Reporting entity:**

AgJunction Inc. (the "Company") is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under the ticker symbol "AJX". The condensed consolidated interim financial statements of the Company as of and for the three and nine month periods ended September 30, 2013 and 2012 comprise the accounts of the Company and its subsidiaries (collectively referred to as the "Company"). The Company is primarily involved in the design, manufacturing, marketing and sale of precision Global Positioning System ("GPS") products and technologies. The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 14, 2013.

On May 24, 2013, Hemisphere GPS Inc. changed its name to "AgJunction Inc." (the "Name Change"). The Name Change was approved by shareholders at the Annual General and Special meeting of shareholders held on May 15, 2013. Consistent with the Name Change, the Company's ticker symbol changed from "HEM" to "AJX" and remains publicly traded on the Toronto Stock Exchange.

**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, 2012, except for the recently adopted accounting pronouncements, which are discussed in note 2(b). These statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2012.

(b) Recently adopted accounting pronouncements

On January 1, 2013, the Company adopted IFRS 13, Fair Value Measurement issued in May 2011. IFRS 13 provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The new standard has been applied prospectively and did not impact the financial results of the Company.

(c) 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

(Unaudited - expressed in U.S. dollars)

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

As of September 30, 2013, there were no financial instruments carried at fair value. The Company previously classified contingent considerations under "Level 3" in the fair value hierarchy. During the 2nd quarter, the agreement was modified to a fixed amount replacing the contingency based on meeting certain revenue growth targets and expenditure levels. The contingent consideration is no longer in the scope of the fair value measurement standard.

As of September 30, 2013, the carrying values of all other financial assets and liabilities approximate fair value.

**3. Share capital:**

(a) Authorized:

Unlimited common shares

Unlimited first preferred shares, issuable in series

Unlimited second preferred shares, issuable in series

(b) Issued:

Issued share capital consists of 69,472,230 common shares at $120,702,326. In January 2013, the Company issued 2,723,705 common shares to settle the 2012 portion of the consideration related to a previous acquisition.

(c) For the nine months ended September 30, 2013, the Company recorded $114,389 (2012 – $269,434, including discontinued operations discussed in note 5) as share based payment expense.

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

Three month period ended:

| | September 30, 2013 | | September 30, 2012 | |
|---|---|---|---|---|
| | Number options | Weighted average exercise price | Number options | Weighted average exercise price |
| Total options outstanding, beginning of period | 4,762,953 | $ 1.15 | 4,748,538 | $ 1.35 |
| Grant | – | – | 700,000 | 0.65 |
| Exercised | (238,748) | 0.74 | – | – |
| Expired | (291,418) | 0.93 | (359,690) | 2.75 |
| Stock options outstanding, end of period | 4,232,787 | $ 1.18 | 5,088,848 | $ 1.15 |

Nine month period ended:

| | September 30, 2013 | | September 30, 2012 | |
|---|---|---|---|---|
| | Number options | Weighted average exercise price | Number options | Weighted average exercise price |
| Total options outstanding, beginning of period | 5,010,750 | $ 1.08 | 4,844,085 | $ 1.40 |
| Grant | 840,950 | 2.07 | 850,000 | 0.65 |
| Exercised | (344,310) | 0.73 | (8,958) | 0.84 |
| Expired | (1,274,603) | 1.47 | (596,279) | 2.47 |
| Stock options outstanding, end of period | 4,232,787 | $ 1.18 | 5,088,848 | $ 1.15 |

**4. Sales concentration:**

The Company currently has one reportable segment of agriculture products after the sale of the precision business unit as discussed in note 6.

Sales by business unit (in thousands):

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Outback North America | $ 3,780 | $ 3,882 | $ 15,697 | $ 20,404 |
| Outback Australia | 248 | 249 | 1,025 | 1,785 |
| OEM | 5,476 | 4,318 | 19,124 | 14,725 |
| Air | 1,236 | 1,567 | 6,357 | 6,819 |
| Agronomy Services | 698 | 496 | 2,150 | 1,544 |
| | $ 11,438 | $ 10,512 | $ 44,353 | $ 45,277 |

Sales by geographic region (in thousands):

| | Three months ended | | Nine months ended | |
|---|---|---|---|---|
| | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| United States | $ 4,295 | $ 4,600 | $ 19,773 | $ 21,170 |
| Canada | 1,969 | 2,113 | 7,937 | 10,643 |
| Europe | 3,191 | 1,372 | 10,439 | 6,342 |
| Australia | 248 | 450 | 1,097 | 2,617 |
| Other | 1,735 | 1,977 | 5,107 | 4,505 |
| | $ 11,438 | $ 10,512 | $ 44,353 | $ 45,277 |

(Unaudited - expressed in U.S. dollars)

## 5. Discontinued operations:

Three month period ended:

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Sales | $ – | $ 3,456,278 |
| Cost of sales | – | 1,578,289 |
| | – | 1,877,989 |
| Expenses: | | |
| Research and development | – | 1,112,072 |
| Sales and marketing | – | 1,032,192 |
| General and administrative | 29,004 | 578,116 |
| | 29,004 | 2,722,380 |
| Operating loss before under noted items | (29,004) | (844,391) |
| Foreign exchange gain | – | 1,500 |
| Interest and other income | – | 525 |
| | – | 2,025 |
| Results from operating income | (29,004) | (842,366) |
| Other comprehensive gain | – | 43,000 |
| Comprehensive loss from discontinued operations | $ (29,004) | $ (799,366) |

For the three months ended September 30, 2013, the Company incurred additional costs related to the closure of the Calgary office.

(Unaudited - expressed in U.S. dollars)

Nine month period ended:

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Sales | $ 1,094,554 | $ 10,908,768 |
| Cost of sales | 969,843 | 5,575,179 |
| | 124,711 | 5,333,589 |
| Expenses: | | |
| Research and development | 344,998 | 2,555,251 |
| Sales and marketing | 348,424 | 3,070,356 |
| General and administrative | 1,167,493 | 1,703,474 |
| | 1,860,915 | 7,329,081 |
| Operating loss before under noted items | (1,736,204) | (1,995,492) |
| Foreign exchange loss | 141,325 | 33,290 |
| Interest and other income | – | (1,118) |
| | 141,325 | 32,172 |
| Results from operating income | (1,877,529) | (2,027,664) |
| Gain on sale of assets (Note 6) | 4,409,311 | – |
| Other comprehensive gain | – | (32,250) |
| Comprehensive gain (loss) from discontinued operations | $ 2,531,782 | $ (1,995,414) |

Cash flows from discontinued operations:

| | September 30, 2013 | September 30, 2012 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Net income (loss) from discontinued operations | $ 2,531,782 | $ (2,027,664) |
| Items not involving cash: | | |
| Gain on sale of assets | (4,409,311) | – |
| Depreciation and amortization | – | 518,819 |
| Share-based payment transactions | – | 68,199 |
| | (1,877,529) | (1,440,646) |
| Change in non-cash operating working capital: | | |
| Accounts receivable | 107,100 | (594,478) |
| Inventories | (1,096,883) | 42,333 |
| Prepaid expenses and deposits | (65,045) | – |
| Collateralized borrowing | (27,421) | – |
| Provisions | (4,691) | – |
| | (2,964,469) | (1,992,791) |
| Cash flows used in investing activities: | | |
| Purchase of property and equipment | – | (232,980) |
| Cash flows used in financing activities: | | |
| Payment of uncollectible collateralized borrowing | (299,464) | – |
| | $ (3,263,933) | $ (2,225,771) |

(Unaudited - expressed in U.S. dollars)

## 6. Sale of precision business unit:

On January 31, 2013, the Company sold the business assets associated with its non-agricultural operations to the Canadian subsidiary of Beijing UniStrong Science & Technology Co. Ltd. for cash proceeds of $14.96 million. This transaction included the Company's Precision Products portfolio and related infrastructure.

| Effect of sale on the financial position: | |
|---|---|
| Fixed assets | $ 1,383,168 |
| Intangibles | 668,754 |
| Accounts receivable | 2,631,907 |
| Inventory | 4,647,860 |
| Prepaid and deposits | 65,045 |
| Other | 4,691 |
| Total assets | $ 9,401,425 |
| Proceeds | $ 14,960,000 |
| Costs | (1,149,264) |
| Net proceeds | $ 13,810,736 |
| Gain on sale of assets | $ 4,409,311 |

The Company sold the accounts receivable included in the transaction above, subject to full recourse. Under the right of recourse, the Company will be obligated to pay for any uncollectible amounts on February 1, 2014. On July 31, 2013, the Company was obligated to pay for an uncollectible receivable, in accordance with the purchase agreement, in the amount of $299,464. As of September 30, 2013, the Company had remaining accounts receivables subject to full recourse in the amount of $326,855.

## 7. Restructuring costs:

As part of the restructuring plan announced during the fourth quarter of 2012, the company incurred additional costs related to the name change and other expenses in the amounts of $184,936 and $59,290, respectively, incurred in the nine months ended September 30, 2013. Of the $184,936 incurred related to the name change, $114,015 was accrued during the nine month period as disclosed in Note 8.

(Unaudited - expressed in U.S. dollars)

**8. Provisions:**

| | Warranties | Restructuring | Total |
|---|---|---|---|
| Balance at December 31, 2012 | $ 741,234 | $ 2,485,000 | $ 3,226,234 |
| Provisions made during the period | 699,014 | 114,015 | 813,029 |
| Provisions used during the period | (579,525) | (2,584,395) | (3,163,920) |
| Balance at September 30, 2013 | $ 860,723 | $ 14,620 | $ 875,343 |

**9. Seasonality of operations:**

A large portion of the Company's revenues are derived from agricultural markets in the Northern Hemisphere. As a result, the Company's revenues are subject to seasonality associated with the heaviest buying season of such markets which takes place in the first half of the calendar year.

**10. Comparative figures:**

Certain comparative information has been reclassified to conform with the current period's presentation due to the sale of precision business unit.