

# Interim Management's Discussion and Analysis

Three month period ended March 31, 2014

AgJunction Inc.
Management's Discussion and Analysis
Three month period ended March 31, 2014

The following discussion and analysis is effective as of May 14, 2014 and should be read together with the unaudited condensed consolidated interim financial statements of AgJunction Inc. ("AgJunction" or the "Company") for the three month period ended March 31, 2014 and the accompanying notes. Additional information relating to the Company, 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 <a href="https://www.sedar.com">www.sedar.com</a> and which is supplemental to the unaudited condensed consolidated interim financial statements and notes for the three month period ended March 31, 2014. 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 (AJX) 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 restructured 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.

#### **Economic and Market Trends**

Financial and Agriculture Markets

In February 2014, the US Department of Agriculture ("USDA") reported that 2013 *net farm income* – which includes income from both crop and livestock farms – was forecasted to be \$130.5 billion, up by 14.7% from 2012. 2014 net farm income is forecasted to be down 26.6% to 95.8 billion. According to the USDA, "The 2014 forecast would be the lowest since 2010, but would remain \$8 billion above the previous 10 year average." Despite lower prices for many agricultural products in the near future, USDA is projecting U.S. farm income to remain historically high through 2023.

Additionally, USDA projects global economic growth to average 3.2 percent annually over the next decade, with stronger growth projected in developing countries, including China, India, and countries in Africa and Latin America. The U.S. economic growth is projected to average 2.6 percent over the next decade. "Steady global economic growth supports longer term gains in world food demand, global agricultural trade, and U.S. agricultural exports," according to the report. While prices for many of the major crops are projected to decline in the next few years, long-term growth in global demand, a low-valued U.S. dollar, and demand for biofuel, will hold prices for corn, oilseeds and other major crops above pre-2007 levels, according to the report.

Management continues to view the fundamentals of its global agriculture markets to be positive in the near to mid-term, 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 GNSS and auto-steering.

#### Currency Markets

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

The Company sells products in US dollars. A portion of the Company's expenses are incurred in Canadian and Australian dollars. As a result, from a purely financial perspective, a stronger US dollar is positive for the Company's earnings as a portion of the Company's expenses are incurred in Canadian and Australian dollars – and such 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.

As a result of the transfer of manufacturing activities from the Calgary location to an external manufacturer effective January 31, 2013, and the closure of the Calgary office on May 31, 2013, the Company's exposure to the Canadian dollar has decreased dramatically.

The average foreign exchange rate for first quarter of 2014 was \$1.1033 Cdn/US, up by 9% from the average 2013 rate of \$1.0083.

Canadian and US dollar exchange rates prevailing during 2013 and 2014 were as follows:

	Quarter Ended								
	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	
	2012	2012	2012	2013	2013	2013	2013	2014	
Quarterly average	\$ 1.0102	\$ 0.9948	\$ 0.9913	\$1.0089	\$1.0231	\$1.0386	\$ 1.0494	\$1.1033	
Quarter end	\$ 1.0191	\$ 0.9837	\$ 0.9949	\$1.0156	\$1.0512	\$1.0285	\$ 1.0636	\$1.1053	

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** 

	30-Jun	30-Sep	31-Dec	31-Mar	30-Jun	30-Sep	31-Dec	31-Mar
(000)	2012	2012	2012	2013	2013	2013	2013	2014
Sales	\$15,744	\$10,512	\$10,155	\$16,611	\$16,304	\$11,438	\$13,867	\$14,929
Gross margin	6,693	4,777	4,033	7,748	7,013	5,205	5,541	6,850
	43%	45%	40%	47%	43%	46%	40%	46%
Expenses								
Research and development	2,755	2,288	2,411	2,288	2,325	1,676	2,382	1,963
Sales and marketing	2,551	2,647	2,297	2,350	2,280	1,945	2,004	1,700
General and administrative	1,380	1,368	1,462	1,543	1,422	1,531	929	1,869
Restructuring costs	-	471	5,683	156	69	18	5	-
	6,686	6,774	11,853	6,337	6,097	5,170	5,319	5,532
Operating income (loss) before undernoted	_	(4.007)	(7.000)				222	
items	7	(1,997)	(7,820)	1,411	916	35	222	1,318
Goodwill impairment	-	-	21,000	-	-	-	-	
Revaluation of contingent consideration	-	-	412	-	-	-	-	-
Foreign exchange (gain) loss	22	(7)	18	(52)	(222)	(30)	21	29
Interest and other (income) loss	(2)	-	-	(7)	3	(11)	(10)	(5)
Loss on sale of property, plant and equipment	-	-	-	-	-	-	147	10
	20	(7)	21,430	(59)	(219)	(41)	158	34
Income (Loss) before income taxes	(13)	(1,990)	(29,250)	1,470	1,135	76	64	1,284
Income taxes	-	-	-	-	-	44	56	21
Net income (loss) from continuing operations	(13)	(1,990)	(29,250)	1,470	1,135	32	8	1,263
Comprehensive income (loss)	(147)	123	(91)	-	-	-	-	
Comprehensive income (loss) before	(400)	(4.007)	(00.044)	4 470	4.405	00	•	4 000
discontinued operations	(160)	(1,867)	(29,341)	1,470	1,135	32	8	1,263
Comprehensive gain (loss) from	(464)	(800)	(3,555)	3,474	(913)	(29)	(1)	
discontinued operations	(404)	(800)	(3,555)	3,474	(913)	(29)	(1)	
Comprehensive income (loss)	(624)	(2,667)	(32,896)	4,944	222	3	7	1,263
	(624)	(2,667)	(32,896)	4,944	222	3	7	1,263
Comprehensive income (loss)  Earnings (loss) per common share:  Basic and diluted	(624)	(\$0.04)	(\$0.50)	\$0.07	\$0.00	\$0.00	\$0.00	
Earnings (loss) per common share: Basic and diluted								\$0.02
Earnings (loss) per common share:	(\$0.01)	(\$0.04)	(\$0.50) (\$0.45)	\$0.07	\$0.00	\$0.00	\$0.00	\$0.02 \$0.02 \$0.00
Earnings (loss) per common share:  Basic and diluted  Basic and diluted - Continuing operations	(\$0.01) (\$0.00)	(\$0.04) (\$0.03)	(\$0.50)	\$0.07 \$0.02	\$0.00 \$0.02	\$0.00 \$0.00	\$0.00 \$0.00	\$0.02 \$0.02

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

For the Quarter Ended

(000's)	30-Jun 2012	30-Sep 2012	31-Dec 2012	31-Mar 2013	30-Jun 2013	30-Sep 2013	31-Dec 2013	31-Mar 2014
United States	\$5,336	\$4,600	\$5,927	\$8,761	\$6,717	\$4,295	\$5,559	\$6,489
Canada	5,016	2,113	1,412	2,247	3,721	1,969	996	971
Europe	2,554	1,372	1,536	3,655	3,593	3,191	4,295	6,203
Australia	1,060	449	483	401	448	248	221	335
Other	1,778	1,977	797	1,547	1,825	1,735	2,796	931
	\$15,744	\$10,512	\$10,155	\$16,611	\$16,304	\$11,438	\$13,867	\$14,929

#### Quarter Ended March 31, 2014 versus Quarter Ended March 31, 2013

#### Revenues

For the three months ended March 31, 2014 revenues were \$14.9 million representing a decrease of 10.1% from \$16.6 million for the same period of 2013.

_(000's)	Q1 2014	Q1 2013	Change
Revenue	\$ 14,929	\$ 16,611	(10.1%)

Per the sales by geographic region table above, United States and Canadian combined revenues were down by 32% from the first quarter of 2013 as a result of the new aftermarket dealer program that was implemented during fourth quarter of 2013 coinciding with expected softness in the aftermarket agricultural retail space. European revenues increased 70% from robust sales to OEM customers, while sales to Australia and other markets, including South America and Asia, declined 17% and 40%, respectively.

Sales by business unit for the first quarter of 2014 and 2013 are as follows:

(000's)	Q1 2014	Q1 2013	Change
Outback North America	\$2,327	\$ 5,508	(57.8%)
Outback Australia	258	328	(21.3%)
OEM	8,615	7,527	`14.5%
Air	3,158	2,607	21.1%
Agronomy Services	571	641	(10.9%)
Total	\$14,929	\$ 16,611	(10.1%)

Strong OEM and Air results for the quarter were offset by reduced sales in our Outback and Agronomy Service product lines compared to the same quarter in 2013. Adjusting the \$5,508 of Outback North America sales in the first quarter 2013 for the effect of the new aftermarket dealer program as noted above, revenue would decrease by approximately \$1.2 million to \$4.3 million. The adjusted comparison results in a quarter over quarter decline of 46.2% related to an expected softening of the North American market as well as delays in buying in Canada due to an unseasonably cold and extended winter.

#### **Gross Margins**

Gross margins of \$6.9 million for the quarter were \$0.9 million lower than the same quarter of 2013 due to the decrease in sales. Gross margins, as a percentage of revenue, were 45.9% during the quarter compared to 46.6% in 2013.

#### **Expenses**

Total operating expenses for the quarter were \$5.5 million compared to \$6.3 million in 2013, a reduction of 13%. Research and development expenditures of \$2.0 million, declined by \$0.3 million, or 14%, compared to \$2.3 million during the first quarter of 2013. Sales and marketing expenses of \$1.7 million, declined by \$0.6 million, or 28%, compared to \$2.3 million during the first quarter of 2013, due to several cost saving initiatives and efficiencies realized through the restructuring. General and administrative expenses were \$1.9 million for the quarter, increasing from \$1.5 million in 2013.

#### Other

During the quarter, the Company realized a foreign exchange loss of \$29 thousand compared to a gain of \$52 thousand during the same quarter in 2013.

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 \$9.2 million of net assets to UniStrong and incurred \$1.1 million in transaction-related costs resulting in gain on the sale of \$4.6 million.

#### **Income Taxes**

During the quarter, the Company recognized income tax expense of \$21 thousand related to alternative minimum taxable income. The Company did not recognize income taxes for the first quarter of 2013.

#### **Discontinued Operations**

In the first quarter of 2013, discontinued operations reported a gain of \$3.5 million related to the sale of the non-agricultural assets and the Calgary geographical area of operations closure.

#### Earnings (Loss)

In the first quarter of 2014, the Company realized income from continuing operations of \$1.3 million or \$0.02 per share (basic and diluted), compared to income from continuing operations of \$1.5 million or \$0.02 per share (basic and diluted) in the first quarter of 2013.

The Company realized comprehensive income of \$1.3 million, or \$0.02 per share (basic and diluted) in the first quarter of 2014 compared to comprehensive income of \$4.9 million or \$0.07 per share (basic and diluted) in the comparable quarter of 2013.

#### Quarter Ended March 31, 2014 versus Quarter Ended December 31, 2013

Revenue for the first quarter of 2014 of \$14.9 million was up 7.7% from revenue of \$13.9 million in the fourth quarter of 2013.

_(000's)	Q1 2014	Q4 2013	Change
Revenue	\$ 14,929	\$ 13,867	7.7%

Per the sales by geographic region on page 5, North American, United States and Canada, revenues for the quarter increased \$0.9 million (13.8%) from the fourth quarter of 2013. The increase is the result of seasonality in the United States. The increase in European revenues of 44.4% from the comparative period is due to strong OEM sales. Revenues from Australia increased from 2013 by 51.6%. Other decreased \$1.9 million (66.7%) from the prior quarter due to strong sales in China during the fourth quarter of 2013 in anticipation of the Spring selling season.

Sales by business unit for the first quarter of 2014 and fourth quarter 2013 are as follows:

(000's)	Q1 2014	Q4 2013	Change
Outback North America	\$2,327	\$ 3,149	(26.1%)
Outback Australia	258	222	16.2%
OEM	8,615	8,183	5.3%
Air	3,158	1,657	90.6%
Agronomy Services	571	656	(13.0%)
Total	\$14,929	\$ 13,867	7.7%

Revenues for the Outback product lines were down by 23.3%, with a decline of 26.1% in North America and an increase of 16.2% in Australia. Strong results from Air products lifted its sales by 90.6% over the previous quarter period along with a slight increase in OEM as results were up by 5.3%. Agronomy Services results were slightly lower, 13.0% decline compared to the previous period.

#### **Gross Margins**

Gross margins in the first quarter of 2014 were \$6.8 million (45.9%), compared to \$5.5 million and (40%) in the fourth quarter of 2013. The majority of the gross margin increase is due to higher sales volumes between the two quarters, coupled with a higher margin product mix related to the Air business unit.

#### Expenses and Other

Operating expenses were \$5.5 million in the first quarter, up \$0.2 million or 4%, from \$5.3 million in the fourth quarter of 2013. Research and development expenses decreased by \$0.4 million compared to the fourth quarter of 2013. Sales and marketing expenses decreased by \$0.3 million from the fourth quarter of 2013. General and administrative expenses increased by \$0.9 million from the fourth quarter of 2013 related to one-time expense reductions realized in the fourth quarter of 2013 related to health care benefits as well as a decrease in the reserve for bad debts at December 31, 2013 and other accruals as a result of management's focus on efficiency and cost reduction.

#### **Income Taxes**

Income taxes in the first quarter of 2014 were \$21 thousand, compare to \$56 thousand in the fourth quarter of 2013, related to alternative minimum taxable income.

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

#### Working Capital

The Company held cash of \$13.0 million at March 31, 2014 compared to \$2.0 million at the end of 2013. Working capital was \$24.3 million, up from \$22.9 million at December 31, 2013. The primary items impacting the cash balance during the first quarter were:

- Short-term investments at March 31, 2014 were \$51 thousand versus \$8.1 million at December 31, 2013
- Accounts receivable at March 31, 2014 was \$7.0 million versus \$11.2 million at December 31, 2013.
- Inventories consist of components, work in process and finished goods related to the products sold by the Company. Inventory was \$12.0 million at March 31, 2014 compared to inventory of \$10.0 million at December 31, 2013.

The primary items impacting the cash balances during the first quarter of 2014 were:

- Cash generated from continued operations was \$3.5 million compared to an outflow of \$168 thousand in of March 31, 2013. There was no impact from discontinued operations in 2014, discontinued operating activities used \$2.8 million of cash during 2013.
- Short-term investments, related to deposits with maturities of greater than three months, of \$8.0 million matured during the first quarter of 2014.
- Acquisition consideration paid for the 2012 acquisition of the AgJunction business included \$0.4 million in 2014 and \$0.5 million in 2013. The Company repaid the loan outstanding with Export Development Canada (EDC) using \$1.1 million of cash during the first quarter of 2013. Loan payments of \$0.6 million were also paid against the Company's operating line of credit balance during the first quarter 2013.
- The Company has obtained an operating line of credit with its bank for \$3 million in February 2014. At March 31, 2014, the full line of credit was available.
- Total tangible capital spending in the first quarter of 2014 was \$0.1 million (2013 \$0.2 million). Property and equipment purchased during the first quarter of 2013 included primarily computer equipment and software and research and development equipment.
- During the first quarter of 2014, the Company capitalized internally developed intangible net costs of \$0.6 million (2013 \$0.6 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 the Company covering a portion of the costs.

#### **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 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, 2014 without any material impact to the Company's Financial Statements: IAS 36, *Recoverable Amount Disclosure for Non-Financial Assets* and IFRIC Interpretation 21, *Levies*.

The following critical accounting policies affect our more significant estimates and assumptions used in preparing our consolidated financial statements:

- 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.
- 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 evaluates its deferred tax assets and records a valuation allowance where the recovery of deferred tax does not meet the required level of certainty. At March 31, 2014, valuation allowances are provided for the full amount of deferred tax assets, such that there are no balances carried in the Consolidated Balance Sheet for such 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, 2013.

### **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 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.

### Condensed Consolidated Interim Financial Statements of



Three month period ended March 31, 2014

(Unaudited - expressed in U.S. dollars)

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

(Expressed in O.S. dollars)	March 31, 2014 (Unaudited)	December 31, 2013*
Assets		
Current assets:		•
Cash and cash equivalents Short-term investments Accounts receivable, net of bad debt provisions of \$716,949 and \$803,410 as of March 31, 2014	\$ 13,018,972 50,665	\$ 2,044,278 8,100,751
December 31, 2013, respectively	6,978,523	11,170,370
Inventories	12,015,337	10,040,812
Prepayments and deposits	698,232	708,489
	32,761,729	32,064,700
Property, plant and equipment	3,097,802	3,166,482
Intangible assets	7,705,148	7,489,245
Goodwill	 21,230,519	21,230,519
	\$ 64,795,198	\$ 63,950,946
Current liabilities: Accounts payable and accrued		
liabilities	\$ 5,568,053	\$ 5,381,864
Provisions (note 7)	896,554	796,318
Deferred revenue	1,999,805	2,439,317
Finance lease	17,947	19,978
Current portion of acquisition consideration Collateralized borrowing	_	400,000 162,388
Conateralized borrowing	8,482,359	9,199,865
Deferred revenue	554,296	494,568
Finance Lease	15,283	18,104
Shareholders' equity:		
Share capital (note 3)	122,385,765	121,096,751
Equity reserve	5,043,822	6,091,297
Accumulated deficit	(71,686,327)	(72,949,639)
	55,743,260	54,238,409
	\$ 64,795,198	\$ 63,950,946

<sup>\*</sup> The December 31, 2013 balance sheet figures have been derived from the audited consolidated financial statements as of that date.

**AgJunction Inc.**Condensed Consolidated Statements of Comprehensive Income

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

(Chiadalea expressed in C.C. dollars)	2014		2013
Sales	\$ 14,928,593	\$	16,610,757
Cost of sales	8,078,937		8,863,006
	6,849,656		7,747,751
Expenses:			
Research and development	1,962,570		2,288,086
Sales and marketing	1,699,537		2,349,434
General and administrative	1,868,838		1,542,977
Restructuring costs (note 7)	_		156,483
	5,530,945		6,336,980
Operating income	1,318,711		1,410,771
Foreign exchange (gain) loss	28,905		(52,593)
Interest and other (income)	(5,068)		(6,981)
Loss on disposal of property, plant and equipment	10,273		
	34,110		(59,574)
Income before income taxes	1,284,601		1,470,345
Income taxes	21,289		_
Net income from continuing operations	1,263,312		1,470,345
(Gain) loss from discontinued operations, net of tax (note 5)	_		(3,473,899)
Net income	1,263,312		4,944,244
Other comprehensive income	_		_
Total comprehensive income	\$ 1,263,312	\$	4,944,244
Earnings per share:			
Basic and diluted income per share	\$ 0.02	\$	0.07
Basic and diluted income per share from			
continuing operations	\$ 0.02	\$	0.02
Basic and diluted gain per share from		_	
discontinued operations	\$ 0.00	\$	0.05

Condensed Consolidated Statements of Changes in Equity

(Expressed in U.S. dollars)

	Share	Equity	Accumulated	Total	Number of
	capital	reserve	Deficit	equity	shares
Balance at December 31, 2012	119,341,668	7,182,124	(78,125,725)	48,398,067	66,404,215
Comprehensive income Issue of common shares for business acquisition, net of	-	-	4,944,244	4,944,244	-
share issue cost (note 3(b))	1,007,000	(1,007,000)	_	_	2,723,705
Share-based payment transactions	_	70,000	_	70,000	_
Stock options exercised	34,796	_	_	34,796	52,951
Transfer from equity reserve on exercise of stock options	14,896	(14,896)	_	_	_
Balance at March 31, 2013 (unaudited)	\$ 120,398,360	\$ 6,230,228	\$ (73,181,481)	\$ 53,447,107	69,180,871
Balance at December 31, 2013	121,096,751	6,091,297	(72,949,639)	54,238,409	69,805,628
Comprehensive income Issue of common shares for business acquisition, net of	-	-	1,263,312	1,263,312	-
share issue cost (note 3(b))	1,007,000	(1,007,000)	_	_	2,178,964
Share-based payment transactions	-	49,449	_	49.449	_,,
Stock options exercised	192,090	_	_	192,090	246,377
Transfer from equity reserve on exercise of stock options	89,924	(89,924)	_	_	_
Balance at March 31, 2014 (unaudited)	\$ 122,385,765	\$ 5,043,822	\$ (71,686,327)	\$ 55,743,260	72,230,969

Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

(Orlaudited - expressed in O.S. dollars)	2014	2013
Cash flows from (used in) operating activities:		
Net income from continuing operations	\$ 1,263,312	\$ 1,470,345
Items not involving cash:	+ ',,-	¥ 1,11 2,2 12
Depreciation	150,086	209,044
Amortization	257,955	256,214
Share-based payment transactions	49,449	70,000
Allowance on trade receivables	91,325	31,012
Net realizable value write down (gain) of inventory	(28,230)	106,034
Loss on disposal of property, plant and equipment	10,273	_
	1,794,170	2,142,649
Change in non-cash operating working capital:		
Accounts receivable	4,100,522	(1,614,440)
Inventories	(1,946,295)	3,423,455
Prepaid expenses and deposits	10,257	152,845
Accounts payable and accrued liabilities	248,289	(1,203,467)
Provisions	100,236	(504,570)
Deferred revenue	(379,784)	192,082
Income taxes paid	(62,100)	_
	2,071,125	445,905
Cash used in discontinued operations (note 5)	_	(2,756,261)
Cash flows from (used in) operating activities	3,865,295	(167,707)
Cash flows from (used in) financing activities:	(	()
Payment of finance lease liability	(4,852)	(22,652)
Interest received, net of bank charges	39,065	(
Bank loan repayment (note 8)	_	(550,000)
Repayment of debt (note 8)	_	(1,140,699)
Issue of share capital, net	192,090	34,796
	226,303	(1,678,555)
Cash used in discontinued operations (note 5)	(162,388)	_
Cash flow from (used in) financing activities	63,915	(1,678,555)
Cash flows used in investing activities:		
Acquisition of short-term investments (note 2(d))	_	(8,000,000)
Proceeds from redemption of short-term investments	8,011,021	_
Purchase of property, plant and equipment	(91,679)	(237,203)
Intangible asset addition	(643,362)	(600,000)
R&D expense reimbursement	169,504	293,991
Payment of acquisition consideration (note 9)	(400,000)	(500,000)
Proceeds from sale of assets, net of cost (note 6)	` _	13,811,503
Cash flows from investing activities	7,045,484	4,768,291
Increase in cash position	10,974,694	2,922,029
Cash and cash equivalents, beginning of year (note 2(d))	2,044,278	2,645,605
Cash and cash equivalents, beginning of year (note 2(d))	\$ 13,018,972	\$ 5,567,634
Cash and Cash Equivalents, end of year	φ 13,010,972	φ 5,507,034

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

#### 1. Reporting entity:

AgJunction Inc. (the "Company") is a company domiciled in Canada. The primary office is located at 2207 lowa Street, Hiawatha, Kansas. 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 March 31, 2014, and for the three month periods ended March 31, 2014 and 2013 comprise the accounts of the Company and its subsidiaries (together referred to as the "Company"). The Company is primarily involved in the design, 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 May 14, 2014.

#### 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, 2013, 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, 2013.

(b) Recently adopted accounting pronouncements

In May 2013, the IASB issued amendments to IAS 36, *Recoverable Amount Disclosures for Non-Financial Assets*. The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

The amended standard was adopted as of January 1, 2014 and has been applied prospectively. The Company determined the amendments to IAS 36 do not have a material impact on the financial results of the Company.

In May 2013, the IASB issued IFRIC Interpretation 21, *Levies*. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation.

The interpretation was adopted as of January 1, 2014. The Company determined the interpretation does not have a material impact on the financial results of the Company.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

#### 2. Basis of preparation and presentation (continued):

#### (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

Level 3: Inputs for the asset or liability that are not based on observable market data

(unobservable inputs).

As of March 31, 2014 and December 31, 2013, the carrying values of all financial assets and liabilities approximate fair value.

#### (d) Reclassifications

Certain prior year amounts have been reclassified for presentation purposes. To conform to the current quarter cash flow presentation, \$8,000,000 previously classified as cash and cash equivalents was moved to short-term investments.

#### 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 72,230,969 common shares at \$122,385,765. During the three months ended March 31, 2014, the Company issued 2,178,964 common shares to settle the remaining consideration related to the 2012 acquisition of AgJunction. See note 9.

(c) During the three month ended March 31, 2014, the Company recorded \$49,449 (2013 – \$70,000) as stock based compensation expense.

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

### 3. Share capital (continued):

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

Three month period ended:

	March 31,	March 31, 2013			
		Weighted		Wei	ighted
		average			erage
	Number of	exercise	Number of	ex	ercise
	options	price	options		price
Total options outstanding,	0.500.405	Ф. 4.00	F 040 7F0	Φ	4.00
beginning of period	3,522,435	\$ 1.03	5,010,750	\$	1.08
Granted	_	_	280,000		0.72
Exercised	(246,377)	0.86	(52,951)		0.66
Expired	(510,499)	1.57	(122,983)		1.41
Stock options outstanding,					
end of period	2,765,559	\$ 0.95	5,114,816	\$	1.06

### 4. Sales concentration (in thousands):

Sales by business unit:

	Three months ended		
	March 31,		March 31,
	2014		2013
Outback North America	\$ 2,327	\$	5,508
Outback Australia	258		328
OEM	8,615		7,527
Air	3,158		2,607
Agronomy Services	571		641
	\$ 14,929	\$	16,611

Sales by geographic region:

	Three months ended		
	March 31,		March 31,
	2014		2013
United States	\$ 6,489	\$	8,761
Canada	971		2,247
Europe	6,203		3,655
Australia	335		401
Other	931		1,547
	\$ 14,929	\$	16,611

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

#### 5. Discontinued operations:

On September 5, 2012, the Company initiated a corporate restructuring with three priorities: (1) to focus on the Company's core agricultural business, (2) to streamline and simplify the organization, and (3) to improve its market-driven innovation capabilities. In connection with this restructuring program, Management initiated the sale of its non-Agriculture activities, including the Precision Products operating segment, see note 6. In addition, the Company commenced initiatives to discontinue internal manufacturing activities and to relocate the Company's headquarters from Calgary to Hiawatha, Kansas, which was finalized on June 30, 2013.

Results of discontinued operations:

·	March 31,		March 31,
	2014		2013
Sales	\$ _	\$	1,094,554
Cost of sales	_		969,843
	_		124,711
Expenses:			
Research and development	_		344,998
Sales and marketing	_		348,424
General and administrative	_		405,492
	_		1,098,914
Operating loss before under noted items	_		(974,203)
Foreign exchange loss	_		141,325
Interest and other income	_		_
	_		141,325
Results from operating income	_		(1,115,528
Gain on sale of assets (Note 6)	_		4,589,427
Gain (loss) from discontinued operations, net of tax	\$ _	(	\$ 3,473,899

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

### 5. Discontinued operations (continued):

Cash flows from discontinued operations:

		March 31,		March 31,
		2014		2013
Cash flows from (used in) operating activities:  Net loss from discontinued operations	\$	_	\$	3,473,899
Items not involving cash:	•		•	-, -,
Gain on sale of assets		_		(4,589,427)
		_		(1,115,528)
Change in non-cash operating working capital:				
Accounts receivable		_		(632,834)
Inventories		_		(938,710)
Prepaid expenses and deposits		_		(64,535)
Provisions		_		(4,654)
		-		(2,756,261)
Cash flows used in financing activities:				
Payment of uncollectible collateralized borrowing		(162,388)		_
	\$	(162,388)	\$	(2,756,261)

#### 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	\$ 1,334,145
Intangibles	668,754
Accounts receivable	2,611,278
Inventory	4,538,710
Prepaid and deposits	64,535
Warranty	4,654
Total assets	\$ 9,222,076
Proceeds	\$ 14,960,000
Costs	(1,148,497)
Net proceeds	\$ 13,811,503
	<b>4.500.407</b>
Gain on sale of assets	\$ 4,589,427

Notes to the Condensed Consolidated Interim Financial Statements

Three months ended March 31, 2014 and 2013 (Unaudited - expressed in U.S. dollars)

#### 7. Warranty provision:

	Total
Balance at December 31, 2013	\$ 796,318
Provisions made during the period	265,668
Provisions used during the period	(165,432)
Balance at March 31, 2014	\$ 896,554

#### 8. Debt

In 2012, the Company entered into a loan agreement with Export Development Canada (EDC) to finance the acquisition of AgJunction from GVM Inc. Pursuant to the loan agreement, EDC financed \$1,500,000 of the purchase price and would finance \$500,000 of each of the payments that may be payable in February 2013 and 2014. In February 2013, the loan was paid in full and the facility was terminated. As of March 31, 2014 and December 31, 2013, the Company does not have debt outstanding.

#### 9. Business Combination

In February 2014, the Company issued 2,178,964 common shares and paid \$400,000 in cash to settle the remaining portion of the consideration related to the 2012 acquisition of AgJunction.

#### 10. 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.

#### 11. Related party transactions:

In February 2014, AgJunction engaged a company considered to be a related party to provide research and training to the Company's employees related to developing technology. The engaged company's Chairman and CEO is a board member of AgJunction. The terms and conditions of this transaction were no more favorable than those available, or which might reasonably be expected to be available, in similar transactions with non-key management personnel related to the companies on an arm's length basis. The transaction value related to these services approximates \$30,000.