



Interim Management's Discussion and Analysis

Three month period ended March 31, 2013

Hemisphere GPS Inc.
Management's Discussion and Analysis
Three month period ended March 31, 2013

The following discussion and analysis is effective as of May 7, 2013 and should be read together with the unaudited condensed consolidated interim financial statements of Hemisphere GPS Inc. ("Hemisphere GPS" or the "Company") for the three month period ended March 31, 2013 and the accompanying notes. Additional information relating to Hemisphere GPS, 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 month period ended March 31, 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 Hemisphere GPS, Hemisphere, or the "Company" all refer to Hemisphere GPS Inc. and its subsidiaries.

Hemisphere GPS 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.

Economic and Market Trends

Financial and Agriculture Markets

Following the global recession that negatively impacted financial markets in 2009 and 2010, 2011 and 2012 have been years of recovery with general stabilization in the markets. The agriculture sector has been positive in 2011 and 2012 with increases in grain prices that began mid-2010 continuing through 2012. In February 2013, the US Department of Agriculture ("USDA") reported that 2012 *net farm income* – which includes income from both crop and livestock farms – was forecasted to be \$112.8 billion, down by 4% from 2011 which was the highest absolute level on record, but up by 52% over the 10 year average, and the second highest absolute level on record.

Strong net farm income was realized in spite of the fact that 2012 saw the United States experience the most extensive and intense drought since at least 1956 which has been compared to the droughts of the 1930s "Dust Bowl" era due to its broad scope. At its peak, the drought extended from Delaware to California, with the most intense drought conditions centered in the nation's heartland. Although conditions have eased somewhat in early 2013, the US plains and areas in the west have remained in severe drought conditions.

Grain prices, which began to increase mid-2010, have remained strong since that time. Strong grain prices have been driven by increasing demand from a variety of sources including global population growth, the changing diets of emerging economies, demand for ethanol and other grain-based biofuels, and more recently by the US drought.

For 2013, net farm income is forecasted to increase 13.6% to \$128.2 billion, which would be the highest inflation-adjusted amount since 1973 and about 65% higher than the prior 10 year average. Company 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. As a result, from a purely financial perspective, a weaker US dollar is negative for the Company's earnings as a portion of the Company's expenses are incurred in Canadian and Australian dollars and such expenses are higher when translated at a weaker US dollar foreign exchange rate. However, from a business perspective, the weaker US dollar relative to global currencies reduces the net price of the Company's products to international customers as sales are made in US dollars – which could result in higher sales.

In addition to the direct impact of foreign currency fluctuations on the Company's expenses, changes in foreign currency rates further impact the Company's working capital as it is held in both Canadian and in US dollars. As the Company's measurement currency is the US dollar, fluctuations in the Canada/US foreign exchange rate result in foreign exchange gains or losses arising from the settlement or the translation of Canadian dollar working capital into US dollars. A weakening US dollar gives rise to foreign exchange gains and a stronger US dollar gives rise to foreign exchange losses – both dependent on the size of the Canadian dollar denominated working capital.

The Company has transferred all manufacturing activities from the Calgary location to an external manufacturer effective January 31, 2013, and the closure of the Calgary office before the end of June 2013, will significantly reduce the Company's foreign currency exchange exposure.

The average foreign exchange rate for first quarter of 2013 was \$1.0089 Cdn/US, up by 1% from the average 2012 rate of \$0.9994.

Canadian and US dollar exchange rates prevailing during 2011 and 2012 were as follows:

	Quarter Ended							
	Jun 30 2011	Sep 30 2011	Dec 31 2011	Mar 31 2012	Jun 30 2012	Sep 30 2012	Dec 31 2012	Mar 31 2013
Quarterly average	\$ 0.9677	\$ 0.9802	\$ 1.0236	\$ 1.0012	\$ 1.0102	\$ 0.9948	\$ 0.9913	\$1.0089
Quarter end	\$ 0.9643	\$ 1.0389	\$ 1.0170	\$ 0.9991	\$ 1.0191	\$ 0.9837	\$ 0.9949	\$1.0156

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)	30-Jun 2011	30-Sep 2011	31-Dec 2011	31-Mar 2012	30-Jun 2012	30-Sep 2012	31-Dec 2012	31-Mar 2013
Sales	\$16,300	\$9,966	\$9,081	\$19,021	\$15,744	\$10,512	\$10,155	\$16,611
Gross margin	7,567	5,105	4,330	8,983	6,693	4,777	4,033	7,748
	46%	51%	48%	47%	43%	45%	40%	47%
Expenses								
Research and development	1,870	2,137	2,283	2,257	2,755	2,288	2,411	2,288
Sales and marketing	2,673	2,076	2,476	3,015	2,551	2,647	2,297	2,350
General and administrative	1,062	1,158	1,123	1,263	1,380	1,368	1,462	1,543
Acquisition costs	-	-	-	117	-	-	-	-
Restructuring costs	-	-	-	-	-	471	5,683	156
	5,605	5,371	5,882	6,652	6,686	6,774	11,853	6,337
Operating income (loss)	1,962	(266)	(1,552)	2,331	7	(1,997)	(7,820)	1,411
Strategic transaction investigation costs	801	-	-	-	-	-	-	-
Operating income (loss) before undernoted items	1,161	(266)	(1,552)	2,331	7	(1,997)	(7,820)	1,411
Goodwill impairment	-	-	-	-	-	-	21,000	-
Revaluation of contingent consideration	-	-	-	-	-	-	412	-
Foreign exchange (gain) / loss	29	35	52	76	22	(7)	18	(52)
Interest and other income	(9)	(4)	(2)	-	(2)	-	-	(7)
Income / (Loss) before income taxes	1,141	(297)	(1,602)	2,255	(13)	(1,990)	(29,250)	1,470
Income taxes	-	-	-	49	-	-	-	-
Net income (loss) from continuing operations	1,141	(297)	(1,602)	2,206	(13)	(1,990)	(29,250)	1,470
Comprehensive income (loss)		(343)	98	115	(147)	123	(91)	-
Net and comprehensive income (loss) before discontinued operations	1,141	(640)	(1,504)	2,321	(160)	(1,867)	(29,341)	1,470
Income (loss) from discontinued operations	(346)	(1,381)	(983)	(732)	(464)	(800)	(3,555)	3,474
Net and comprehensive income (loss)	795	(2,021)	(2,487)	1,589	(624)	(2,667)	(32,896)	4,944
Earnings (loss) per common share:								
Basic and diluted	\$0.01	(\$0.03)	(\$0.04)	\$0.02	(\$0.01)	(\$0.04)	(\$0.50)	\$0.07
Basic and diluted - Continuing operations	\$0.02	(\$0.01)	(\$0.03)	\$0.03	(\$0.00)	(\$0.03)	(\$0.45)	\$0.02
Basic and diluted - Discontinued operations	(\$0.01)	(\$0.02)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.01)	(\$0.05)	\$0.05
Weighted Average Diluted shares	58,988	60,110	60,276	64,478	69,935	65,682	65,832	66,722

Sales by region on a quarterly basis are as follows:

(000's)	For the Quarter Ended							
	30-Jun 2011	30-Sep 2011	31-Dec 2011	31-Mar 2012	30-Jun 2012	30-Sep 2012	31-Dec 2012	31-Mar 2013
North America	\$10,747	\$5,955	\$6,328	\$14,539	\$10,366	\$6,883	\$7,339	\$11,008
Europe	2,995	1,187	716	2,416	2,554	1,372	1,536	3,655
Australia	1,001	792	803	1,107	1,060	449	483	401
Other	1,557	2,032	1,234	959	1,764	1,808	797	1,547
	\$16,300	\$9,966	\$9,081	\$19,021	\$15,744	\$10,512	\$10,155	\$16,611

Quarter Ended March 31, 2013 versus Quarter Ended March 31, 2012

Revenues

For the three months ended March 31, 2013 revenues were \$16.6 million representing a decrease of 12.7% from \$19.0 million for the same period of 2012.

(000's)	Q1 2013	Q1 2012	Change
Revenue	\$ 16,611	\$ 19,021	(12.7%)

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

North American revenues were down by 24% from the first quarter of 2012 primarily the result of a two-month delay in the launch of the Company's new Outback STX Guidance System as poor weather conditions delayed field-test completion in early 2013. Management estimates that this delay accounted for approximately \$3M in lost 1st quarter revenues, and a significant portion will not be realized in subsequent quarters during 2013.

Gross Margins

Gross margins of \$7.7 million for the quarter were \$1.3 million lower than the same quarter of 2012 due to the decrease in sales. Gross margins, as a percentage of revenue, were 46.6% during the quarter compared to 47.2% in 2012.

Expenses

Total operating expenses for the quarter were \$6.3 million compared to \$6.7 million in 2012, a reduction of 5%. Research and development expenditures of \$2.3 million were unchanged compared to 2012. Sales and marketing expenses of \$2.3 million, declined by \$0.7 million, or 22%, compared to \$3 million during the first quarter of 2012, due to lower compensation costs partly associated with the corporate restructuring, as well as lower advertising and marketing costs. General and administrative expenses were \$1.5 million increasing slightly from \$1.3 million in 2012. Restructuring costs totaled \$.2 million 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 transfer \$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.

During the quarter the Company realized a foreign exchange gain of \$53 thousand compared to a loss of \$74 thousand during the same quarter in 2012.

Discontinued Operations

Discontinued operations of \$3.5 million incurred during the quarter related to the sale of the non-agricultural assets and the Calgary geographical area of operations closure. The Company incurred \$0.7 million during the comparative period in 2012.

Earnings (Loss)

Hemisphere GPS generated net income from continuing operations of \$1.5 million, or \$0.02 per share (basic and diluted) in the first quarter of 2013 compared to net profit of \$2.3 million, or \$0.03 per share (basic and diluted) in the first quarter of 2012. The Company realized net and comprehensive income of \$4.9 million, or \$0.07 per share (basic and diluted) during the quarter compared to income of \$1.6 million or \$0.02 per share (basic and diluted) in 2012.

Quarter Ended March 31, 2013 versus Quarter Ended December 31, 2012

Revenue for the first quarter of 2013 of \$16.6 million was up 58.8% from revenue of \$10.2 million in the fourth quarter of 2012. All product lines grew significantly from the previous quarter. The increase from the fourth quarter is primarily explained by the seasonality experienced by the Company. A large portion of the Company's revenues are generated from agricultural markets in the Northern Hemisphere. As a result, the Company's revenues are strongest during the heaviest buying season of such markets, which is the first half of the calendar year as farms prepare for the coming planting season.

Gross Margins

Gross margins in the first quarter of 2013 were \$7.7 million (46.6%), compared to \$4.0 million and (40%) in 2012. The majority of the gross margin increase is due to higher sales volumes between the two quarters, coupled with a higher margin percentage related to out-sourcing of manufacturing and an inventory reduction plan that was in place during the fourth quarter of 2012.

Expenses and Other

Operating expenses prior to restructuring costs were \$6.2 million in the first quarter of 2013 as well as the fourth quarter of 2012. Quarterly expense for research and development, sales and marketing, and general and administrative were at the same level as the fourth quarter of 2012.

Restructuring Costs

The Company reported restructuring costs of \$0.2 million in the quarter compared to \$5.7 million in the previous quarter related to the closure of the Calgary office and the change in the corporate branding to AgJunction.

Discontinued Operations

The Company reported net income from discontinued operations of \$3.5 million in the first of 2013 compared to a net loss of \$0.7 million in the previous quarter. The gain on sale of the non-agricultural operations of \$4.6M partially offset by increased resources dedicated to the closure of the Calgary manufacturing activities and office are the primary differences from the previous quarter.

Earnings (Loss)

In the first quarter of 2013, the Company realized a profit from continuing operations of \$1.5 million or \$0.02 per share (basic and diluted), compared to a profit from continuing operations of \$2.3 million or \$0.03 per share in 2012.

The Company realized a net and comprehensive income of \$4.9 million or \$0.07 per share (basic and diluted) in the first quarter of 2013 compared to a profit of \$1.6 million or \$0.02 per share (basic and diluted) in 2012.

Liquidity and Capital Resources

Working Capital

The Company held cash of \$13.6 million at March 31, 2013 compared to \$2.6 million at the end of 2012. Working capital was \$21.8 million, up from \$17.2 million at December 31, 2012. The primary items impacting the cash balance during the first quarter were:

- Accounts receivable at March 31, 2013 was \$7.8 million versus \$6.2 million at December 31, 2012.
- Inventories consist of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory was \$10.2 million at March 31, 2013 compared to inventory of \$13.8 million at December 31, 2012.
- Included in provisions on the statement of financial position at March 31, 2013 is an accrual for restructuring costs of \$1.8 million for cash restructuring costs, but expected to be paid in 2013.

The primary items impacting the cash balances during the period were:

- Cash generated from continuing operations was \$2.6 million compared to \$3.1 million as of March 31, 2012. After the impact of discontinued operations, operating activities used \$0.2 million of cash during the first quarter of 2013 compared to cash inflow of \$1.5 million in the first quarter of 2012.
- Cash of \$2.8 million was used in discontinued operations in the first quarter of 2013 compared to \$1.7 million in the comparative period of 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. The Company has an operating line of credit with its bank for \$3 million. At March 31, 2013, the full line of credit was available.
- Total tangible capital spending in 2013 was \$0.2 million (2012 - \$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 2013, the Company capitalized internally developed intangible net costs of \$0.3 million (2012 - \$0.5 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 Hemisphere GPS 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, 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 assets, to the extent that it is probable that future taxable profit will be available against they can be utilized. At March 31, 2013, there are no balances carried in the Consolidated Balance Sheet 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



Three month period ended March 31, 2013

(Unaudited - expressed in U.S. dollars)

HEMISPHERE GPS INC.

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

	March 31, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,567,634	\$ 2,645,605
Accounts receivable	7,770,644	6,187,216
Inventories	10,248,426	13,777,915
Prepayments and deposits	508,945	661,790
Assets held for sale (note 6)	–	7,567,133
	<hr/> 32,095,649	<hr/> 30,839,659
Property, plant and equipment	3,452,421	3,438,472
Intangible assets	7,753,742	7,703,947
Goodwill	21,230,519	21,230,519
	<hr/> \$ 64,532,331	<hr/> \$ 63,212,597
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,246,198	\$ 6,449,665
Bank indebtedness	–	550,000
Provisions (note 8)	2,721,664	3,226,234
Deferred revenue	1,930,022	1,748,928
Finance lease	29,532	52,184
Current portion of contingent consideration	400,000	500,000
Debt	–	1,140,699
	<hr/> 10,327,416	<hr/> 13,667,710
Deferred revenue	757,808	746,820
Contingent consideration	–	400,000
Shareholders' equity:		
Share capital (note 3)	120,398,360	119,341,668
Equity reserve	6,230,228	7,182,124
Deficit	(73,181,481)	(78,125,725)
	<hr/> 53,447,107	<hr/> 48,398,067
	<hr/> \$ 64,532,331	<hr/> \$ 63,212,597

See accompanying notes to condensed consolidated interim financial statements.

HEMISPHERE GPS INC.

Condensed Consolidated Statements of Comprehensive Income

Three months ended March 31, 2013 and 2012
(Unaudited - expressed in U.S. dollars)

	2013	2012
Sales	\$ 16,610,757	\$ 19,021,417
Cost of sales	8,863,006	10,038,590
	7,747,751	8,982,827
Expenses:		
Research and development	2,288,086	2,256,991
Sales and marketing	2,349,434	3,015,302
General and administrative	1,542,977	1,263,277
Acquisition costs	—	117,475
Restructuring costs (note 7)	156,483	—
	6,336,980	6,653,045
Results from operating activities	1,410,771	2,329,782
Foreign exchange (gain) loss	(52,593)	74,507
Interest and other income	(6,981)	(151)
	(59,574)	74,356
Profit before income taxes	1,470,345	2,255,426
Income taxes	—	48,650
Profit for the period	1,470,345	2,206,776
Comprehensive income	—	114,538
Net profit from continuing operations	1,470,345	2,321,314
Income (loss) from discontinued operations, net of tax (note 5)	3,473,899	(731,877)
Net income and comprehensive income	\$ 4,944,244	\$ 1,589,437
Earnings per share:		
Basic and diluted income per share	\$ 0.07	\$ 0.02
Basic and diluted income per share from continuing operations	\$ 0.02	\$ 0.03
Basic and diluted loss per share from discontinued operations	\$ 0.05	\$ (0.01)

See accompanying notes to condensed consolidated interim financial statements.

HEMISPHERE GPS INC.

Condensed Consolidated Statements of Changes in Equity

(Unaudited - expressed in U.S. dollars)

	Share capital	Equity reserve	Deficit	Hedging reserve	Total equity	Number of shares
Balance at December 31, 2011	115,168,510	4,783,284	(43,528,081)	–	76,423,713	60,824,409
Net profit for the period	–	–	1,435,437	–	1,435,437	–
Accumulated other comprehensive income	–	–	–	154,000	154,000	–
Issue of common shares for business acquisition	4,150,000	–	–	–	4,150,000	5,447,410
Share issue cost	(71,081)	–	–	–	(71,081)	–
Share-based payment transactions	–	119,856	–	–	119,856	–
Stock options exercised	7,435	–	–	–	7,435	8,958
Business acquisition	–	2,014,000	–	–	2,014,000	–
Transfer from equity reserve on exercise of stock options	3,621	(3,621)	–	–	–	–
Balance at March 31, 2012	\$119,258,485	\$ 6,913,519	\$ (42,092,644)	\$ 154,000	\$ 84,233,360	66,280,777
Net loss for the period	–	–	(36,033,081)	–	(36,033,081)	–
Accumulated other comprehensive loss	–	–	–	(154,000)	(154,000)	–
Issue of common shares, net of share issue cost	80,056	–	–	–	80,056	120,000
Share-based payment transactions	–	269,578	–	–	269,578	–
Stock options exercised	2,154	–	–	–	2,154	–
Transfer from equity reserve on exercise of stock options	973	(973)	–	–	–	3,438
Balance at December 31, 2012	119,341,668	7,182,124	(78,125,725)	–	48,398,067	66,404,215
Net profit for the period	–	–	4,944,244	–	4,944,244	–
Issue of common shares (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	\$120,398,360	\$ 6,230,228	\$ (73,181,481)	\$ –	\$ 53,447,107	69,180,871

See accompanying notes to condensed consolidated interim financial statements.

HEMISPHERE GPS INC.

Condensed Consolidated Statements of Cash Flows

Three months ended March 31, 2013 and 2012
(Unaudited - expressed in U.S. dollars)

	2013	2012
Cash flows from (used in) operating activities:		
Net income	\$ 1,470,345	\$ 2,206,776
Items not involving cash:		
Depreciation and amortization	465,258	783,243
Share-based payment transactions	70,000	89,517
Unrealized foreign exchange gain	(11,963)	(15,140)
	1,993,640	3,064,396
Change in non-cash operating working capital:		
Accounts receivable	(1,583,428)	(2,568,614)
Income tax credits receivable	–	(4,251)
Inventories	3,529,489	(636,449)
Prepaid expenses and deposits	152,845	82,005
Accounts payable and accrued liabilities	(1,203,467)	2,118,320
Provisions	(504,570)	225,951
Deferred revenue	192,082	783,593
	2,576,591	3,064,952
Cash used in discontinued operations (note 5)	(2,756,261)	(1,536,259)
	(179,670)	1,528,693
Cash flows from (used in) financing activities:		
Payment of finance lease liability	(22,652)	(20,405)
Bank loan	(550,000)	–
Issue of debt	–	1,501,351
Repayment of debt	(1,140,699)	–
Issue of share capital, net	34,796	7,435
	(1,678,555)	1,488,381
Cash flows used in investing activities:		
Purchase of property, plant and equipment	(237,203)	(209,265)
Intangible asset addition	(306,009)	(475,000)
Payment of contingent consideration	(500,000)	–
Proceeds from sale of assets, net of cost (note 6)	13,811,503	–
Business acquisition	–	(2,071,081)
Cash used in discontinued operations (note 5)	–	(131,747)
	12,768,291	(2,887,093)
Increase in cash position	10,910,066	129,981
Effect of exchange rate fluctuations on cash and cash equivalents	11,963	15,140
Cash and cash equivalents, beginning of year	2,645,605	6,721,314
Cash and cash equivalents, end of year	\$ 13,567,634	\$ 6,866,435

See accompanying notes to condensed consolidated interim financial statements.

HEMISPHERE GPS INC.

Notes to the Condensed Consolidated Interim Financial Statements

Three and nine months ended March 31, 2013 and 2012

(Unaudited - expressed in U.S. dollars)

1. Reporting entity:

Hemisphere GPS 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 "HEM". The condensed consolidated interim financial statements of the Company as at and for the three month periods ended March 31, 2013 and 2012 comprise the accounts of the Company and its subsidiaries (together 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 May 7, 2013.

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

In May 2011, the IASB issued IFRS 13, Fair Value Measurement. 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
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only financial instrument carried at fair value is the contingent consideration. The Company classifies the contingent consideration under "Level 3" in the fair value hierarchy. The contingent consideration is based on AgJunction meeting certain revenue growth targets and the Company meeting certain expenditure levels in 2012 and 2013.

HEMISPHERE GPS INC.

Notes to the Condensed Consolidated Interim Financial Statements, page 2

Three months ended March 31, 2013 and 2012
(Unaudited - expressed in U.S. dollars)

As at March 31, 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 69,180,871 common shares at \$120,398,360. During the quarter the Company issued 2,723,705 common shares to settle the 2012 portion of the contingent consideration related to the AgJunction acquisition.

(c) During the quarter, the Company recorded \$70,000 (2012 – \$119,856) as stock based compensation expense.

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

Three month period ended:

	March 31, 2013		March 31, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of period	5,010,750	\$ 1.08	4,844,085	\$ 1.40
Granted	280,000	0.72	–	–
Exercised	(52,951)	0.66	(8,958)	0.84
Expired	(122,983)	1.41	(201,589)	1.91
Stock options outstanding, end of period	5,114,816	\$ 1.06	4,633,538	\$ 1.38

HEMISPHERE GPS INC.

Notes to the Condensed Consolidated Interim Financial Statements, page 3

Three months ended March 31, 2013 and 2012

(Unaudited - expressed in U.S. dollars)

4. Segment information:

Asset and sales by geographic segment:

	Non-current assets		Sales	
	March 31, 2013	December 31, 2012	March 31, 2013	March 31, 2012
United States	\$ 17,649,000	\$ 17,425,000	\$ 8,761,000	\$ 10,926,000
Canada	67,000	100,000	2,247,000	3,613,000
Europe	—	—	3,655,000	2,416,000
Australia	14,721,000	14,848,000	401,000	1,107,000
Other	—	—	1,547,000	959,000
	<u>\$ 32,437,000</u>	<u>\$ 32,373,000</u>	<u>\$ 16,611,000</u>	<u>\$ 19,021,000</u>

HEMISPHERE GPS INC.

Notes to the Condensed Consolidated Interim Financial Statements, page 4

Three months ended March 31, 2013 and 2012
(Unaudited - expressed in U.S. dollars)

5. Discontinued operations:

Results of discontinued operations:

	March 31, 2013	March 31, 2012
Sales	\$ 1,094,554	\$ 3,611,882
Cost of sales	969,843	1,846,341
	124,711	1,765,541
Expenses:		
Research and development	344,998	992,702
Sales and marketing	348,424	973,488
General and administrative	405,492	545,072
	1,098,914	2,511,262
Operating loss before under noted items	(974,203)	(745,721)
Foreign exchange loss	141,325	25,670
Interest and other income	-	(52)
	141,325	25,618
Results from operating income	(1,115,528)	(771,339)
Gain on sale of assets (Note 6)	4,589,427	-
Comprehensive income	-	39,462
	\$ 3,473,899	\$ (731,877)

Cash flows from discontinued operations:

	March 31, 2013	March 31, 2012
Cash flows from (used in) operating activities:		
Net loss from discontinued operations	\$ 3,473,899	\$ (771,339)
Items not involving cash:		
Gain on sale of assets	(4,589,427)	-
Depreciation and amortization	-	189,548
Share-based payment transactions	-	30,339
	(1,115,528)	(551,452)
Change in non-cash operating working capital:		
Accounts receivable	(632,834)	(818,510)
Inventories	(938,710)	(166,297)
Prepaid expenses and deposits	(64,535)	-
Provisions	(4,654)	-
	(2,756,261)	(1,536,259)
Cash flows used in investing activities:		
Purchase of property and equipment	-	(131,747)
	\$ (2,756,261)	\$ (1,668,007)

HEMISPHERE GPS INC.

Notes to the Condensed Consolidated Interim Financial Statements, page 5

Three months ended March 31, 2013 and 2012
(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	\$ 1,334,145
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
Gain on sale of assets	\$ 4,589,427

7. Restructuring costs:

As part of the restructuring plan announced during the fourth quarter of 2012, the company accrued costs related to name change in the amount of \$114,015 and paid retention bonuses of \$42,468.

8. Provisions:

	Warranties	Restructuring	Total
Balance at December 31, 2012	\$ 741,234	\$ 2,485,000	\$ 3,226,234
Provisions made during the period	274,241	114,015	388,256
Provisions used during the period	(136,962)	(755,864)	(892,826)
Balance at March 31, 2013	\$ 878,513	\$ 1,843,151	\$ 2,721,664

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.