


Q2 Interim Report

June 30, 2009

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Hemisphere GPS®

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Message to Shareholders

For the second quarter ended June 30, 2009, Hemisphere GPS reported a 37% decrease in revenues to $14.5 million, versus $23.0 million in the second quarter of 2008. Customer purchasing activity in the agriculture sector continued to be at the low end of management's expectations due to cautious recessionary spending within the agricultural equipment market.

Hemisphere GPS reported a net loss prior to foreign exchange and restructuring costs of $283 thousand in the second quarter of 2009 compared to income of $3.5 million in the second quarter of 2008. Including foreign exchange and restructuring costs, a consolidated net loss of $1.3 million, or ($0.02) per share, was reported in the second quarter of 2009 compared to net income of $3.2 million, or $0.06 per share, in the second quarter of 2008.

In the first half of 2009 we were hit by recessionary pressures and currency challenges that have generated significant caution for order flow within the industry. We are also comparing our results year-over-year to a very robust first half of 2008. With positive outlooks for this years' crops, falling input costs, and a weakening US dollar, optimism is beginning to return to the market. We intend to capture this optimism with new products, new customers, and new markets as we continue to drive towards generating a stronger second half relative to 2008.

While the first half of 2009 was impacted by the global economic slow-down, mid and long-term fundamentals for Hemisphere GPS' market sectors are solid. Agricultural markets remain positive driven by population growth, limited arable land, the need for increased output, and a relatively low global penetration of precision agriculture technologies such as GPS and auto-steering. Crop prices and farm income levels have declined from the record levels seen in 2008, however, remain high by historical standards. The USDA has recently projected a positive report on potential grain production in 2009, with a record number of planted acres for soybeans and the second highest recorded number of planted acres of corn.

In terms of the decreased farm equipment spending in 2008, the overall trend toward increased technology on the farm is certainly not reversing. We see precision farming technology adoption becoming more of a necessity than ever, particularly in North America, with the rest of the world catching up to the efficiency of North American farming operations and food production. As the world's commercial farms continue to move toward the view that technology for precision agriculture is becoming as indispensible as the tractor, adoption should return to its prior growth rates.

It is sometimes forgotten that we are a technology company, not an Agricultural company. Given the amount of exposure our revenue stream has to the Agriculture sector, we will spend a significant amount of time discussing this part of our business. However, this should not overshadow the fact that we have very significant opportunities across a number of industry sectors with our technology on both a retail basis in specific vertical markets such as marine, and earthworks, as well as on a wholesale basis to OEM's and integrators who focus on other industry specific applications.

Operationally we are stable even in the current down market, and we have maintained strong gross margins. We maintain a leadership position in our market and our technology and products continue to set benchmarks. In 2009 we are adding more new products, and further expanding our markets while we also manage expenses prudently during the economic pullback.

At June 30, 2009, Hemisphere GPS held cash of $8.8 million, as compared to a balance of $16.3 million at December 31, 2008, and working capital at June 30, 2009 was approximately $30 million.

We continue international expansion initiatives by adapting our product portfolio to cater to many regions of the world through additional product features and language support including: French, Spanish, Portuguese, Dutch, Latvian, Ukrainian, Romanian, Lithuanian and Slovakian. By making existing products more inclusive and developing new products specific to targeted market regions, we continue our commitment to broadening our global market presence.

Most recently, we have also added the Chinese character set to our Outback line, allowing us to penetrate China, where the use of fertilizer has increased by 80% - giving an indication of the activity within the Chinese Agriculture market. We believe a tremendous opportunity is developing for our precision agriculture technology in that region. We've now established our sales distribution partners in China, along with a local full-time Hemisphere GPS representative and are well positioned to capture the leadership opportunity in the China market.

Despite the Q2 sales decrease, we are able to weather this recession due to our scalability and conservative cost management. In part, our scalability enabled us to maintain our gross margin strength at 50%. Our expenses are down as budgets have been tightened and we have reduced total headcount since the beginning of the year. We also closed our Texas office and have consolidated our business units into a more efficient structure. Inventory has now peaked and we expect to reduce and convert inventory into cash across the second half of the year. And we are looking at additional efficiency improvements across all areas of the company.

I mentioned that during the second quarter, the Ground Agriculture and Air business units were combined into a single business unit and we will now report activities under two operating segments: Agriculture and Precision Products. The newly formed business units create more synergy between air and ground agriculture platforms and applications, including the Company's patented dual-flow and variable-rate technologies. These are powerful technologies for precision Ag.

To manage the newly formed Agriculture business unit, we are lucky to have had Kip Pendleton recently join Hemisphere GPS as vice-president and general manager of the division. Kip has more than 25 years of experience in agriculture business management with both large and small agriculture companies. I am confident about the future of the Agriculture Business Unit under his capable management. With Kip pursuing the opportunities and synergies in our integrated Agriculture business unit, this will allow Hemisphere GPS to further diversify into other sectors.

We are managing the business responsibly through this difficult period and reduced sales levels. Operationally the Company is stable with ample working capital and no debt.

The medium to long term global market opportunity we are pursuing exists as much today as it did previously. The fundamental demand and supply drivers of the market opportunities we are pursuing have not changed. We have tremendous future prospects associated with new products (such as next generation steering, machine automation and control capabilities, data management and next generation GPS and inertial technologies), new customers, and new markets – both geographic and vertical. We are well positioned to capture these opportunities as recessionary conditions subside.

We thank you for your support of Hemisphere GPS and look forward to reporting to you on our progress following the close of our 2009 third quarter.

Steven Koles
President & CEO

Interim Management Discussion and Analysis

Six month period ended June 30, 2009

The following discussion and analysis is effective as of July 30, 2009 and should be read together with the unaudited interim consolidated financial statements of Hemisphere GPS Inc. ("Hemisphere GPS" or the "Company") for the three and six month periods ended June 30, 2009 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 interim consolidated financial statements and notes for the three and six month periods ended June 30, 2009.

Overview

Hemisphere GPS designs, manufactures and sells innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. Hemisphere GPS carries out its activities through two business units: Agriculture (ground and air agriculture markets) and Precision Products (non-agriculture markets including marine and geographic information systems). The primary vertical market for the Company's products is agriculture representing approximately 85% of its revenues. 74% of 2009 year-to-date revenues were from customers in North America.

Hemisphere GPS uses the US dollar as its reporting currency, however has a Canadian dollar measurement currency. All financial information referenced in this Management Discussion and Analysis is denominated in US dollars, unless otherwise indicated.

Economic and Market Trends

Financial Markets

Recessionary conditions continued to impact global financial markets during the second quarter of 2009. Hemisphere GPS's customers continued to be cautious in light of these conditions resulting in lower revenues relative to 2008. In addition, volatility continued to impact commodity prices associated with the agriculture markets including grain prices as well as input costs such as seed, gasoline and fertilizer.

Agriculture Markets

While near-term global economic outlook remains uncertain given recessionary conditions, mid to long-term conditions in the agricultural markets remain positive. In its February 2009 updated *Farm Income and Costs* estimate, the US Department of Agriculture ("USDA") projects that *net farm income* – which includes both crop and livestock farms – will be $71.2 billion for 2009. While this is down from $89.3 billion in 2008, it remains 9% higher than the 10-year average. In its June 30, 2009 Acreage Report, the USDA projected that planted acres for corn and soybeans are up in 2009 by 1.2% and 2.3% from 2008 respectively. Corn acres planted at this level represent the second highest level on record and soybean acres planted represent a record level. Planted acres for wheat are projected to be down by 5% from 2008.

Crop prices have declined from the record levels seen in 2008, however, they remain high by historical standards - driven by lower grain inventory levels and increasing demand from a variety of sources including global population growth, the changing diets of emerging economies, as well as from demand for ethanol and other grain-based biofuels. Farm production costs remain high, however, the USDA expects costs to decline in 2009 compared to 2008.

Company Management continues to view the fundamentals of the global agriculture markets to be positive for the mid to longer 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 GPS and auto-steering. Volatile financial markets and caution from recessionary conditions appear to be driving the deferral of discretionary agricultural equipment purchases in 2009. For 2009, Company revenues are down by 34% from the first half of 2008, which Management believes is largely a result of conservative purchasing by our customers in light of global economic uncertainty.

Currency Markets

The Company's financial results are impacted by changes in foreign currency rates – particularly the Canadian/US dollar exchange rate. After weakening from 2002 to 2007, the US dollar stabilized against the Canadian dollar for the full year of 2008 where the average rate for the year was largely flat with the average for 2007. The US dollar began to strengthen against the Canadian dollar during the last half of 2008 and into the first quarter of 2009, however, during the second quarter, the US dollar again weakened against the Canadian dollar. The average foreign exchange rate for the second quarter of 2009 was $1.1671 Cdn/US, down by 6% from the first quarter of 2009, but up by 16% from the second quarter of 2008.

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.

Canadian and US dollar exchange rates for the last eight quarters are as follows:

	Quarter Ended							
	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009
Quarterly average	$ 1.0446	$ 0.9818	$ 1.0041	$ 1.0100	$ 1.0418	$ 1.2125	$ 1.2453	$ 1.1671
Quarter end	$ 0.9963	$ 0.9881	$ 1.0279	$ 1.0186	$ 1.0599	$ 1.2246	$ 1.2602	$ 1.1625

Results of Operations

Summary of Quarterly Results

(000's)	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009
Sales	$ 9,069	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,518	$ 17,955	$14,465
Gross margin	4,198	6,079	13,074	12,088	6,815	4,826	9,407	7,283
	46%	45%	50%	52%	52%	46%	52%	50%
Expenses:								
Research and development	1,239	1,449	1,804	2,027	1,943	2,324	2,101	1,996
Sales and marketing	1,855	2,741	3,298	3,299	2,728	2,683	3,225	2,832
General and administrative	1,291	1,725	1,965	2,168	1,657	1,399	1,575	1,769
Stock-based compensation	126	133	128	221	190	161	217	206
Amortization	558	673	928	911	861	728	713	763
	5,069	6,721	8,123	8,626	7,379	7,295	7,831	7,566
Earnings (loss) before undernoted items	(871)	(642)	4,951	3,462	(564)	(2,469)	1,576	(283)
Foreign exchange (gain) loss	404	27	(594)	322	(242)	(112)	(10)	173
Interest income	(100)	(94)	(115)	(92)	(89)	(109)	(9)	(7)
Restructuring costs	–	–	–	–	–	251	–	812
Other income	–	–	(263)	–	–	–	–	–
Legal fees on settlement of lawsuit	1,347	96	–	–	–	151	–	–
Earnings (loss) before income tax	(2,522)	(671)	5,923	3,232	(233)	(2,650)	1,595	(1,261)
Income tax	–	–	114	62	–	–	–	–
Earnings (loss) before discontinued operations	(2,522)	(671)	5,809	3,170	(233)	(2,650)	1,595	(1,261)
Income (loss) from discontinued operations	(102)	29	–	–	–	–	–	–
Net earnings (loss)	$ (2,624)	$ (642)	$ 5,809	$ 3,170	$ (233)	$ (2,650)	$ 1,595	$ (1,261)
Earnings (loss) per common share from continuing operations *:								
Basic and diluted	$ (0.05)	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)	$ 0.03	$ (0.02)
Net earnings (loss) per common share *:								
Basic and diluted	$ (0.06)	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)	$ 0.03	$ (0.02)

** Calculated using quarterly weighted average number of shares outstanding.*

Operating Segments

During the second quarter, the Ground Agriculture and Air business units were combined into a single business unit. The Company's Air sales office in Euless, Texas was closed and activities were transferred to the Ground Agriculture business unit's office in Kansas. As a result, for reporting purposes, the Company will now report activities under two operating segments: Agriculture and Precision Products. Amounts reported in the past for Ground Agriculture and Air have been combined and reported as Agriculture.

Sales by segment on a quarterly basis are as follows:

	For the Quarter Ended							
(000's)	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009
Agriculture	$ 6,861	$ 11,425	$ 23,160	$ 20,047	$ 10,146	$ 8,417	$ 15,755	$ 11,794
Precision Products	2,208	2,046	2,749	2,990	3,055	2,100	2,200	2,671
	$ 9,069	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,517	$ 17,955	$ 14,465

Quarter Ended June 30, 2009 versus Quarter Ended June 30, 2008

Revenue

For the three months ended June 30, 2009, revenue was $14.5 million, down 37% from revenues of $23.0 million for the same period of 2008. Revenues from the Company's operating segments were as follows in the second quarter of 2009 and 2008:

(000's)	**Q2 2009**	**Q2 2008**	**Change**
Agriculture	$ 11,794	$ 20,047	-41%
Precision Products	2,671	2,990	-11%
	$ 14,465	$ 23,037	-37%

Revenues from Agriculture were down by 41% in the second quarter compared to 2008. Uncertainty in global financial markets has continued to cause farmers, as well as OEM and system integrator customers, to remain cautious with respect to their spending on agricultural equipment. While second quarter revenues in North America - relative to 2008 - were slightly stronger than in the first quarter, revenues from international and OEM/system integrator customers were down to a greater extent as these customers adjusted purchases and inventory levels to respond to recessionary conditions.

Revenues from the Precision Products segment were less impacted than Agriculture with revenue declining 11% compared to 2008. Again, revenues from OEM and international customers represented the largest decline.

Sales by region for the second quarter of 2009 and 2008 are as follows:

(000's)	Q2 2009	Q2 2008	Change
North America	$ 10,581	$ 15,602	-32%
Europe	2,109	2,964	-29%
Australia	538	1,741	-69%
Other	1,237	2,730	-55%
	$ 14,465	$ 23,037	-37%

Compared to the second quarter of 2008, consolidated North American revenues were down by 32% (35% in the first quarter) and international revenues were down by 48% (13% in the first quarter).

Gross Margin

Second quarter gross margins of $7.3 million were down from $12.1 million for the same quarter of 2008. On a percentage basis, gross margins were 50% compared to 52% in 2008. Gross margins were lower primarily as a result of the impact of fixed manufacturing costs on lower revenue levels as well as from lower software revenues. Cost reductions through outsourcing the manufacture of an increased number of component and finished goods products has been a key driver in maintaining gross margin strength.

Expenses

Operating expenses were $7.6 million in the second quarter, a decrease of $1.1 million, or 12%, compared to the second quarter of 2008.

Management of Hemisphere GPS continues a strong focus on operating cost management as a result of the uncertainties associated with the global financial markets. Further to the previously announced closure of the Euless, Texas office, the Company implemented a workforce reduction initiative during the second quarter. As a result of these initiatives, headcount of 241 employees is down by 21 from 262 employees at March 31, 2009. Restructuring costs of $0.8 million were recorded in the second quarter related to these activities, comprised of costs for severance and for the closure of the Euless office. Annualized cost savings related to these activities are expected to be approximately $1.3 million with about 20% impacting cost of sales and 80% impacting operating costs. The Company is also implementing other cost-savings initiatives to prudently manage costs.

Second quarter research and development expenses were about 1% lower than in 2008. The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets. While R&D headcount has increased by over 10% compared to the second quarter of 2008, weaker Canadian and Australian dollar exchange rates compared to 2008 result in lower expenses when reported in US dollars. In addition, costs incurred for project materials, incentive plan accruals and discretionary costs were lower than in 2008.

Sales and marketing expenses were down from the second quarter of 2008 by 14%. Lower sales commissions related to lower revenue levels, incentive plan accruals and discretionary costs contributed to this reduction. In addition, the changes in foreign exchange rates had a positive impact on sales and marketing expenses. These reductions were offset by increased sales and marketing headcount associated with revenue growth during 2008.

General and administrative expenses decreased by 18%, or $0.4 million, in the quarter. This reduction is a result of the favourable change in foreign exchange rates, lower incentive plan accruals and lower discretionary costs from diligent cost management.

Other

In the second quarter of 2009, the Company recorded interest income of $7 thousand compared to interest income of $92 thousand in 2008. The Company earns interest income on its cash balance, however, interest rates have declined significantly in 2009 compared to 2008 and the balance of cash was lower in 2009.

The Company realized a foreign exchange loss of approximately $0.2 million during the second quarter of 2009 compared to a loss of $0.3 million in 2008. The foreign exchange gains/losses reported in the Consolidated Statement of Operations arise primarily from the impact of the fluctuating US dollar on the translation of US dollar denominated working capital. While the US dollar was adopted as the Company's reporting currency, the measurement currency remains the Canadian dollar. As a result, the Company remains exposed to foreign currency translation and transaction gains and losses on US dollar denominated working capital.

The Company has a foreign currency risk management program to mitigate the impact of foreign currency fluctuations on US dollar working capital. A foreign currency risk management gain of $1.6 million is netted against the foreign exchange loss in the second quarter.

Net Income

Hemisphere GPS realized a net loss of $1.3 million, or $(0.02) per share (basic and diluted) in the second quarter of 2009 compared to net income of $3.2 million, or $0.06 per share (basic and diluted) in the second quarter of 2008.

Quarter Ended June 30, 2009 versus Quarter Ended March 31, 2009

Revenue

Revenue in the second quarter of 2009 of $14.5 million was down by 19% from revenue of $18.0 million in the first quarter of 2009.

Precision Products revenues increased by 21% compared to the first quarter with stronger purchases by distributors and system integrator customers purchasing receivers and Vector heading sensor products.

Agriculture revenues were down by 25% from the first quarter. This decline is partly explained by the seasonality experienced by the Company as second quarter Agriculture revenues are typically lower than the first quarter based on northern hemisphere buying patterns. In 2009, the reduction was amplified by lower purchases by OEM/system integrator customers and by international distributors.

Gross Margin

Gross margins of $7.3 million were down from $9.4 million in the first quarter of 2009 as a result of lower revenues. Percentage gross margins of 50% were down from 52% in the first quarter primarily as a result of the impact of fixed manufacturing costs on lower revenues.

Expenses

Expenses of $7.6 million for the three months ended June 30, 2009 decreased by $0.3 million, or 3%, from the first quarter. Research and development expenses were lower mainly due to lower project-related material costs. Sales and marketing expenses were lower as a result of lower advertising costs and sales commissions. General and administrative expenses are typically higher in the second quarter each year as a result of public company regulatory compliance matters such as public filings and the annual general meeting.

Other

Interest income of $7 thousand in the second quarter decreased from $9 thousand in the quarter ended March 31, 2009.

The Company realized a foreign exchange loss of $0.2 million in the second quarter of 2009 versus a gain of $10 thousand in the first quarter of 2009 relating primarily to the translation and settlement of US dollar denominated working capital.

Net Income (Loss)

Hemisphere GPS realized a loss of $1.3 million, or $(0.02) per share (basic and diluted) in the second quarter of 2009 compared to net income of $1.6 million, or $0.03 per share (basic and diluted) in the first quarter.

Six Months Ended June 30, 2009 versus Six Months Ended June 30, 2008

Revenue

Sales by Operating Segment	**Six months ended**		
(000's)	**Jun 2009**	**Jun 2008**	**Change**
Agriculture	$ 27,549	$ 43,207	-36%
Precision Products	4,871	5,739	-15%
	$ 32,420	$ 48,946	-34%

Revenue in the six months ended June 30, 2009 of $32 million decreased by 34% from revenue of $49.0 million in the corresponding period of 2008. Company Management believe that the decrease is related to the impact of recessionary conditions on its customers in Agriculture and Precision Products. Agriculture revenues have declined by 36% whereas Precision Products revenues have declined by 15%.

Both North American and International revenues have declined by 34% on a year-to-date basis. Compared to 2008, North American revenues performed slightly stronger in the second quarter than in the first quarter, whereas the impact of recessionary conditions appears to have impacted International revenues to a greater extent in the second quarter.

Gross Margin

Gross margins of $16.7 million were down from $25.2 million in the first half of 2008 as a result of lower revenues. Percentage gross margins were unchanged year over year at 51%.

Expenses

Operating expenses of $15.4 million for the six months ended June 30, 2009 have declined by $1.4 million from the first half of 2008. Although average headcount over the first half of 2009 was 4% higher than in 2008, increased compensation costs have been offset by lower discretionary costs, lower incentive plan accruals and the impact of weaker Canadian and Australian dollar exchange rates versus the US dollar.

Other

In the first six months of 2009, the Company realized a foreign exchange loss of $0.2 million (2008 – gain of $0.3 million). A year-to-date foreign exchange risk management gain of $1.0 million is netted against this loss.

Interest income (net of interest expense) of $17 thousand was earned during the first half of 2009 (2008 - $0.2 million). Restructuring costs of $0.8 million were incurred in 2009 relating to a workforce reduction initiative and the closure of the Air sales office in Euless, Texas.

Income Taxes

There was no income tax expense reported in the first six months of 2009. The Company recorded $0.2 million of current income tax expense in the first six months of 2008 relating to alternative minimum taxes on its US operations.

Net Earnings (loss)

The Company earned net income in the first half of 2009 of $0.3 million, or $0.01 per share (basic and diluted), compared to $9.0 million, or $0.17 per share (basic and diluted) in the first half of 2008.

Liquidity and Capital Resources

Hemisphere GPS held cash of $8.8 million at the end of the second quarter compared to a balance of $12.5 million at March 31, 2009. The primary items impacting the cash balance during the second quarter were:

- Cash of $0.4 million was generated by operations, prior to working capital changes, compared to $4.4 million of cash generated from operations in the second quarter of 2008.
- Agriculture-related inventory was built in anticipation of strong sales during the first half of the year, which is the strongest agriculture buying season. Softer sales than anticipated have resulted in the increase in inventory. Inventory levels have stabilized and Management expects that inventories will decline over the last half of 2009.
- Accounts receivable and payable both decreased from March 31, 2009. Accounts payable have declined to a greater extent than accounts receivable due to lower inventory-related trade payables at June 30, 2009.
- At March 31, 2009, a foreign exchange contract was in place in connection with the Company's foreign exchange risk management program. This contract was settled in the second quarter.
- Total capital spending in the second quarter of 2009 was $0.8 million compared to $0.4 million in 2008. Tangible asset capital costs include production equipment, computer equipment and other assets. Intangible asset capital costs include the costs associated with the development of integrated circuits for future product developments.
- During the second quarter, no stock options were exercised.

- As of June 30, 2009, there were 55,561,676 common shares outstanding. No shares were acquired during the second quarter under the normal course issuer bid announced in September 2008.

Hemisphere GPS has an unused operating line of credit with its bank with a maximum borrowing limit of Cdn$7.0 million. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The Company has entered into a general security agreement with its bank to secure such indebtedness. At June 30, 2009, the Company had not drawn on this facility.

Critical Accounting Policies and Estimates and Changes in Accounting Policies

Hemisphere GPS prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada and has a Canadian dollar measurement currency and a US dollar reporting currency.

As of January 1, 2009, the Company has adopted newly issued accounting standard CICA Handbook Section 3064, "*Goodwill and Intangibles Assets"*, relating to the standards for the recognition, measurement and disclosure of goodwill and intangibles assets. The adoption of these standards had no impact on the consolidated financial statements of the Company.

Update on the Conversion to International Financial Reporting Standards

The Company is in the assessment phase of the conversion. This includes, among other things, identifying the differences between existing Canadian GAAP and IFRS, the project structure and governance, resource requirements, training plans, review of the impact on information management systems and internal controls and the analysis of the potential for exemptions under IFRS 1.

Internal Control 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 Canadian GAAP.

The CEO and the CFO have evaluated the design and effectiveness of the disclosure controls and procedures and have concluded that they are not effective due to the weaknesses in internal controls over financial reporting ("ICFR") discussed below.

The CEO and the CFO, together with certain of the Company's Management, have evaluated the design and effectiveness of internal controls over financial reporting and have concluded that they are not effective. Management has identified certain weaknesses in internal controls over financial reporting which result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, as described more fully below, however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement.

Limited Number of Staff: Common with many small companies, internal control deficiencies have been identified within the Company's accounting and finance department as a result of a limited number of staff. Two deficiencies were identified:

1. the Company does not have the personnel with all the technical knowledge to identify and address complex and non-routine transactions that may arise; and
2. certain duties were not adequately segregated due to the limited number of staff.

Management has implemented processes to mitigate the risks arising from these weaknesses, including the transfer of certain incompatible functions to staff who do not have incompatible functions. However, given limited resources, there are circumstances where it was determined that it is not cost effective to fully eliminate incompatible functions. Instead, the Company relies on mitigating processes and controls. Material, complex and non-routine transactions are overseen by members of the senior management team and third-party expert advisors are consulted as needed in connection with the accounting and other implications. Detailed working papers are prepared and regularly reviewed by accounting management. Management reporting is prepared and reviewed monthly by the senior management team. On a quarterly basis, consolidated financial statements are reviewed by the Chief Executive Officer, Chief Financial Officer and the Audit Committee of the Board of Directors.

The weaknesses identified did not result in any adjustments to the Company's annual or interim financial statements for the 2008 fiscal year or the 2009 period.

There were no changes in 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 disclosure controls and procedures and internal control over financial reporting. For further discussion of internal controls over financial reporting, refer to the Company's Annual Report for the year ended December 31, 2008.

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.

Consolidated Financial Statements of

Hemisphere GPS

Three and six months ended June 30, 2009 and 2008

(unaudited - expressed in U.S. dollars)

HEMISPHERE GPS INC.

Consolidated Balance Sheets
(unaudited - expressed in U.S. dollars)

	June 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 8,790,906	$ 16,288,684
Accounts receivable	7,539,907	7,409,108
Inventories	18,565,097	14,016,645
Deferred commissions	204,957	215,402
Prepaid expenses and deposits	661,998	679,863
	35,762,865	38,609,702
Deferred commissions	156,150	171,852
Property and equipment	7,167,888	6,871,801
Intangible assets	7,206,701	7,029,627
Goodwill	36,840,281	34,972,095
	$ 87,133,885	$ 87,655,077
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,591,551	$ 6,634,059
Foreign exchange contract (note 6)	–	3,270,210
Deferred revenue	1,370,860	1,484,166
	5,962,411	11,388,435
Deferred revenue	1,044,008	1,035,220
Shareholders' equity:		
Share capital (note 3)	107,711,504	108,162,136
Share capital purchased for cancellation under Normal Course Issuer Bid	–	(450,633)
Contributed surplus	3,556,735	3,134,045
Deficit	(33,897,596)	(34,232,193)
Accumulated other comprehensive income	2,756,823	(1,381,933)
	80,127,466	75,231,422
	$ 87,133,885	$ 87,655,077

See accompanying notes to consolidated financial statements.

Approved by the Board:

"signed"   *"signed"*

Paul Cataford, Director   John M. Tye III, Director

HEMISPHERE GPS INC.

Consolidated Statements of Operations and Deficit
(unaudited – expressed in U.S. dollars)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Sales	$ 14,465,261	$ 23,036,767	$ 32,420,313	$ 48,945,531
Cost of sales	7,182,484	10,948,560	15,730,497	23,783,077
	7,282,777	12,088,207	16,689,816	25,162,454
Expenses:				
Research and development	1,995,546	2,026,017	4,096,908	3,830,408
Sales and marketing	2,832,314	3,299,394	6,056,998	6,597,461
General and administrative	1,768,856	2,168,144	3,344,061	4,133,650
Stock-based compensation (note 3(c))	205,638	220,911	422,506	348,791
Amortization	762,970	911,301	1,476,450	1,839,066
	7,565,324	8,625,767	15,396,923	16,749,376
Earnings before undernoted items	(282,547)	3,462,440	1,292,893	8,413,078
Foreign exchange loss (gain)	173,254	322,565	162,790	(271,794)
Interest income	(7,345)	(92,101)	(16,680)	(207,273)
Restructuring costs (note 5)	812,186	–	812,186	–
Other income	–	–	–	(263,036)
Earnings before income taxes	(1,260,642)	3,231,976	334,597	9,155,181
Current income taxes	–	62,134	–	175,903
Net earnings	(1,260,642)	3,169,842	334,597	8,979,278
Deficit, beginning of period	(32,636,954)	(34,660,278)	(34,232,193)	(40,469,714)
Adjustment due to adoption of new accounting policy	–	150,135	–	150,135
Deficit, end of period	$(33,897,596)	$(31,340,301)	$(33,897,596)	$(31,340,301)
Earnings per common share from continuing operations:				
Basic and diluted	$ (0.02)	$ 0.06	$ 0.01	$ 0.17
Earnings per common share:				
Basic and diluted	$ (0.02)	$ 0.06	$ 0.01	$ 0.17
Weighted average shares outstanding:				
Basic	55,561,667	56,229,439	55,561,667	53,510,557
Diluted	55,561,667	56,921,538	55,561,667	53,976,161

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income
(unaudited - expressed in U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net earnings	$ (1,260,642)	$3,169,842	$ 334,597	$ 8,979,278
Translation of assets and liabilities into U.S. dollars reporting currency	6,285,859	852,972	4,138,757	(2,684,838)
Comprehensive Income	$ 5,025,217	$ 4,022,814	$ 4,473,354	$ 6,294,440
Accumulated Other Comprehensive Income (loss), opening balance	$ (3,529,036)	$13,687,850	$ (1,381,933)	$17,225,660
Translation of assets and liabilities into U.S. dollars reporting currency	6,285,859	852,972	4,138,757	(2,684,838)
Accumulated Other Comprehensive Income, closing balance	$ 2,756,823	$14,540,822	$ 2,756,823	$14,540,822

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

Consolidated Statements of Cash Flows
(unaudited – expressed in U.S. dollars)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Cash flows from (used in) operating activities:				
Earnings from continuing operations	$ (1,260,642)	$ 3,169,842	$ 334,597	$ 8,979,278
Items not involving cash:				
Amortization	762,970	911,301	1,476,450	1,839,066
Stock-based compensation	205,638	220,911	422,506	348,791
Unrealized foreign exchange loss (gain)	724,410	134,419	594,071	(715,765)
	423,376	4,436,473	2,827,624	10,451,370
Change in non-cash operating working capital:				
Accounts receivable	3,165,179	2,828,228	445,478	(1,198,888)
Inventories	868,289	611,800	(3,493,575)	497,345
Prepaid expenses and deposits	66,425	86,960	54,748	203,158
Deferred commissions	13,600	1,445	44,582	(41,882)
Accounts payable and accrued liabilities	(4,373,213)	(3,643,464)	(2,515,713)	(1,627,206)
Settlement of foreign currency contract	(1,433,039)	15,708	(2,323,539)	15,708
Notes payable	–	(11,463)	–	(322,680)
Deferred revenue	(185,617)	32,615	(234,865)	336,107
	(1,446,000)	4,358,302	(5,195,260)	8,313,032
Cash flows from (used in) financing activities:				
Capital lease obligations	–	(50,762)	–	(101,003)
Issue of share capital, net of share issue costs	–	675,202	–	939,940
	–	624,440	–	838,937
Cash flows used in investing activities:				
Purchase of property and equipment	(298,996)	(383,061)	(529,397)	(854,530)
Intangible asset additions	(493,390)	–	(697,300)	–
Business acquisition, net	–	(92,654)	–	(92,654)
	(792,386)	(475,715)	(1,226,697)	(947,184)
Increase (decrease) in cash position	(2,238,386)	4,507,027	(6,421,957)	8,204,785
Effect of currency translation on cash balances and cash flows	(1,482,777)	(28,254)	(1,075,812)	195,473
Cash and cash equivalents, beginning of period	12,512,069	17,377,264	16,288,675	13,455,779
Cash and cash equivalents, end of period	$ 8,790,906	$ 21,856,037	$ 8,790,906	$ 21,856,037
Cash and cash equivalents consist of:				
Cash	$ 4,790,906	$ 21,856,037	$ 4,790,906	$ 21,856,037
Term deposits	4,000,000	–	4,000,000	–
Supplemental disclosure:				
Interest paid	$ 14,448	$ 7,252	$ 18,500	$ 14,435

See accompanying notes to consolidated financial statements.

(unaudited – expressed in U.S. dollars)

1. Basis of presentation:

The accompanying unaudited consolidated financial statements for Hemisphere GPS Inc. (the "Company") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. The financial information included herein is unaudited. The disclosures in these interim financial statements are incremental to those included within the annual financial statements and should be read in conjunction with those annual statements. These interim financial statements follow the same accounting policies and methods of application as the most recent annual audited financial statements dated December 31, 2008, except for the following changes in accounting policies.

As of January 1, 2009, the Company has adopted newly issued accounting standard CICA Handbook Section 3064, "*Goodwill and Intangibles Assets"*, relating to the standards for the recognition, measurement and disclosure of goodwill and intangibles assets. The adoption of these standards had no impact on the consolidated financial statements of the Company.

2. Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and a $4,000,000 term deposit with a Canadian chartered bank with original maturity of less than thirty days.

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 common shares only, as follows;

	Number of Shares	Amount
Balance, December 31, 2008	55,788,376	$108,162,136
During first quarter of 2009, cancelled under Normal Course Issuer Bid	(226,700)	(450,632)
Balance, March 31 and June 30, 2009	55,561,676	$107,711,504

3. **Share capital (continued):**

(c) Stock-based compensation:

At June 30, 2009 there were 3,915,889 (2008 – 3,372,847) stock options outstanding. During the second quarter of 2009 the Company granted nil stock options (2008 – 1,127,500) and recorded $205,638 compensation expense (2008 – $220,911). For the six months ended June 30, 2009, the Company granted nil stock options (2008 – 1,127,500) and recorded $422,506 (2008 – $348,791) as compensation expense.

4. **Segmented information:**

The Company has two operating segments based upon the structure in which management has organized the operations of the Company for making operating decisions, resource allocation decisions and assessing financial performance. The operating segments have been defined primarily by the products, markets, distribution methods and customer composition associated with each segment.

During the second quarter, the Ground Agriculture and Air business units were combined into a single business unit under a single General Manager. The Company's Air sales office in Euless, Texas was closed and activities were transferred to the Ground Agriculture business unit. As a result, for reporting purposes, the Company will report activities under two operating segments: Agriculture and Precision Products. Comparative amounts for Ground Agriculture and Air have been combined and reported as Agriculture.

Both of the reportable operating segments derive their revenue from the sale of GPS guidance related products. Because of their shared nature, the Company does not allocate goodwill, property and equipment, capital expenditures or related amortization to its operating segments.

Three month period ended June 30, 2009	Agriculture	Precision	Shared	Total
Sales	$ 11,794,000	$ 2,671,000	$ –	$ 14,465,000
Contribution (loss)	$ 2,215,000	$ 983,000	$ (4,459,000)	$ (1,261,000)

June 30, 2008	Agriculture	Precision	Shared	Total
Sales	$ 20,047,000	$ 2,990,000	$ –	$ 23,037,000
Contribution (loss)	$ 8,560,000	$ 880,000	$ (6,270,000)	$ 3,170,000

4. Segmented information (continued):

Six month period ended

June 30, 2009	Agriculture	Precision	Shared	Total
Sales	$ 27,549,000	$ 4,871,000	$ –	$ 32,420,000
Contribution (loss)	$ 5,380,000	$ 1,732,000	$ (6,777,000)	$ 335,000

June 30, 2008	Agriculture	Precision	Shared	Total
Sales	$ 43,207,000	$ 5,739,000	$ –	$ 48,946,000
Contribution (loss)	$ 17,695,000	$ 1,727,000	$(10,443,000)	$ 8,979,000

Sales by geographic segments:

	Three months ended		**Six months ended**	
	June 30, 2009	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
United States	$ 6,377,000	$ 9,349,000	$ 16,890,000	$ 25,079,000
Canada	4,204,000	6,253,000	7,199,000	11,306,000
Europe	2,109,000	2,964,000	5,198,000	5,180,000
Australia	538,000	1,741,000	1,134,000	2,884,000
Other	1,237,000	2,730,000	1,999,000	4,497,000
	$ 14,465,000	$ 23,037,000	$ 32,420,000	$ 48,946,000

Assets by geographic segments:

	June 30, 2009	**December 31, 2008**
United States	$ 51,644,000	$ 49,092,000
Canada	17,515,000	
21,376,000		
Australia	17,975,000	17,187,000
	$ 87,134,000	$ 87,655,000

5. **Restructuring cost**

During the quarter, the Company completed certain restructuring activities with the objective of improving the efficiency and effectiveness of its operations. These activities included the closure of the Euless, Texas office and a workforce reduction program. The costs associated with these activities in the current quarter were $812,000 which include costs of $200,000 for lease-break costs related to the closure of the Euless, Texas office, $128,000 of severance and other costs and $484,000 related to the workforce reduction program. In addition to these costs, the Company accrued $160,000 of termination costs related to the closure of the Euless, Texas office at December 31, 2008. The Company paid $366,000 of the restructuring costs during the current quarter.

6. **Foreign exchange contract**

On June 30, 2009, the Company entered into a foreign exchange contract expiring on September 30, 2009 to sell $10.5 million US dollars and buy Cdn dollars at a forward rate of $1.1605. This contract is recorded at fair value with the change in fair value recognized through earnings and included in "Foreign exchange loss (gain)" in the Consolidated Statements of Operations and Deficit.

7. **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.

8. **Comparative figures:**

Certain comparative information has been reclassified to conform with the current period's presentation.