MESSAGE TO SHAREHOLDERS

From an operating perspective, 2009 represented a year of important research and development success and product launches for Hemisphere GPS. From a markets perspective, 2009 was a difficult year, as recessionary headwinds and difficult weather disrupted our core agricultural customer base in North America. Overall, we have managed the business through this period and are well positioned to excel in the emerging economic recovery.

The impact of the struggling economy and one of the latest North American harvests on record reduced overall revenues for the year by 26%, to $53.6 million, from revenues of $72.7 million in 2008. While the revenue decline was significant, shareholders should maintain perspective as the year over year decline must take into account the comparison between the weakest global economy in decades to a healthy economy and one of the strongest years ever for agriculture in 2008.

Despite the revenue decline for 2009, we managed to maintain healthy gross margins of 48%, compared to 51% in 2008. This demonstrates the effective management of our costs, and the value of our products to our end customers, as pricing was maintained. The primary cause of reduced margins was the impact of foreign exchange volatility.

In reaction to the economic slowdown we took action to keep costs at a manageable level with respect to our revenues and balance sheet. Cost reduction initiatives taken during 2009 reduced total headcount by 10.5%. However, some of the cost savings from such activities were offset by the weaker US dollar, which results in higher Canadian and Australian expenses when converted to US dollars for reporting purposes.

While 2009 was indeed a difficult year, a key financial highlight was our strong finish to the year, where we delivered 16% growth in the fourth quarter. In fact, it was our second strongest Q4 ever, second only to Q4, 2007. We are encouraged that the industry can look forward to a gradual recovery and growth in our 20th year of operation in 2010.

A weaker US dollar effectively increases the purchasing power in international markets, notably South America, Europe and Australia, which can positively influence sales. Subsequent to the weakening of the US dollar, international revenues did in fact show a strong performance in the fourth quarter with growth of 55% compared to the fourth quarter of 2008 with particular strength in Asia, South America and Europe. This is a marked improvement following the 34% decrease in International revenues for the first three quarters of the year.

The North American harvest in 2009 was one of the latest on record. However, in part due to the success of technology and precision agriculture farming, the 2009 harvest is now estimated to be at record levels for both corn and soy beans. This bodes well for farmer income in those segments. For the US sector in aggregate, in its December 2009 report *Agricultural Income and Finance Outlook,* the US Department of Agriculture ("USDA") projects that *net farm income* will be $57.0 billion for 2009, down by 34.5% from record 2008 net farm income of $87.1 billion. Net farm income is forecasted by the USDA to grow in 2010. Grain commodity prices will be important in determining the overall confidence of growers for 2010. The health and confidence of the U.S. corn and soy bean growers are particularly relevant to Hemisphere GPS as its core customer base. With net farm income projected to rise in 2010, demand for auto steering and precision agriculture is predicted to remain high.

Sales in all areas of our business were impacted by uncertainty associated with the 2009 decline in global markets. Sales of non-agriculture related products by our Precision Products segment fared better in 2009 with a decline of just 7 per cent in the year. These products include sales to Marine, GIS, OEMs and other customers. Revenues for these products continue to benefit from our focus on expanding and improving the quality of the Precision Products sales channels around the world, as well as the introduction of new products, including dual-frequency GPS.

An enhanced version of our flagship Outback S3™ announced in March 2009 introduced an economical offering in the higher-end Precision Agriculture segment. Our new Outback Sts™, was also successfully received by customers, though sold lower volumes than anticipated due to the recession. The Outback Sts positions advanced situational awareness and mapping features for the mid-market segment. At the lower end of the market, our entry-level Outback S-Lite has also done very well, particularly in international markets.

Overall, our auto-steering products showed a smaller decline than other Outback product categories such as basic guidance products, as auto-steer product sales represent both sales to new customers and up-sale opportunities to existing customers who own existing Outback guidance units. As in 2008, the Outback eDriveTC™ auto-steering product was the largest single revenue generating product for the company in 2009.

Auto-steering is by far the most desired new product category in precision agriculture today. Fewer customers today are interested in buying precision guidance without the complementary auto-steering technology. When we introduced auto-steering several years ago, we indeed proclaimed that it was going to make a bigger impact on farming operations than GPS guidance alone. Accordingly, we continue to evolve our auto-steering technologies to provide market-leading capabilities, and subsequent to the end of 2008, we announced the Outback eDriveX™ auto-steering system. This will be an important product for us moving forward. Complementing our existing eDriveTC product, Outback eDriveX provides a new level of precision steering and control performance and can accurately steer more demanding farming practices, including high precision planting such as strip tilling, requiring high accuracy at a wide range of speeds. Outback eDriveX provides more uniform treatments, reduces waste, conserves fuel, and reduces driver fatigue, all of which reduce cost and extend available time in the field. eDriveX opens up new opportunities with after-market and OEM customers.

Hemisphere GPS continued to move forward introducing new products to further strengthen our competitive position and increased value to the customer. In addition to the new eDriveX and the new Outback S-Lite which was updated for more international markets, including India and China, we also introduced a new version of Outback AutoMate for planter section control, Air IntelliStar, the new standard for state-of-the-art air GPS guidance for aerial applicators, and the G100 all-in-one steering and guidance system for auto steer-ready agriculture vehicles with the first version compatible with AGCO auto guide ready tractors.

We also recently introduced two new dual-frequency smart antennas, the A220 and A221, both in rugged portable all-in-one enclosures and delivering centimetre-level positioning accuracy with RTK for precise guidance, machine control, and survey applications. This demonstrates the value of our commitment to investment in research and development to maintain and expand the company's portfolio of technology and products. In 2010, we will also be announcing our foray into the Earthworks segment, including new products and partnerships, which leverage our research and development investment in machine control applications.

Hemisphere GPS continues international expansion into new markets and distribution channels. Our highest growth areas have been from international markets, and we have adapted our product portfolio to cater to many regions throughout the world, with support for 20 different languages. We've also been furthering our international expansion initiatives to complement our presence in the southern hemisphere in places like Brazil, Argentina and Australia. We continue to focus on making inroads into Eastern Europe, Russia, China and India. In 2010 we are expanding our sales network throughout Australia by implementing the U.S. model that helped Outback Guidance grow into one of North America's largest after-market supplier of GPS guidance systems for agriculture. This will allow Australian-based growers to purchase the full line of Outback products directly before the 2010 planting season.

In closing, 2009 was a difficult year. However, we accomplished a great deal in terms of product and technology development as well as market expansion. We ended the year with growth in the fourth quarter and cautious optimism for 2010, buoyed by forecasts of increased net farm income for 2010.

We thank you for your continued support. I look forward to reporting to you on our progress during 2010.

Steven Koles
President & Chief Executive Officer
Hemisphere GPS Inc.

Management's Discussion and Analysis

Year ended December 31, 2009

Management’s Discussion and Analysis

Year ended December 31, 2009

The following discussion and analysis is effective as of March 18, 2010 and should be read together with our audited annual consolidated financial statements and accompanying notes. Additional information related to Hemisphere GPS Inc., including the Company’s Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval (“SEDAR”) on the internet at www.sedar.com. All amounts stated in this Management Discussion and Analysis (“MD&A”) are in US 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 is engaged in the design, manufacture and sale of innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. The Company organizes its activities along two primary segments: agriculture products and precision products for non-agriculture markets (including marine and geographic information systems). Revenues from agriculture represent approximately 80% of its revenues. Approximately 70% of 2009 revenues were from customers in North America.

Economic and Market Trends

Financial Markets

Following the global financial crisis and economic conditions of late 2008, 2009 was a very challenging year with recessionary conditions across the globe. However, by mid-year, signs of a turnaround began to appear in emerging-market countries and in most advanced economies, including those in North America and Europe, by end of the year. While there remains uncertainty and volatility in the financial markets, it is anticipated by many that a subdued recovery will continue in 2010 and will accelerate in 2011. Hemisphere GPS was impacted by these negative economic conditions. For example, agriculture-related customers were impacted by volatility in grain prices, as well as input costs such as seed, gasoline and fertilizer and were cautious in their spending during 2009.

Agriculture Markets

In its December 2009 report *Agricultural Income and Finance Outlook,* the US Department of Agriculture (“USDA”) projects that *net farm income* – which includes both crop and livestock farms – will be $57.0 billion for 2009, down by 34.5% from record 2008 net farm income of $87.1 billion. While the decline is significant, the report explains that it is driven primarily by lower livestock farm income. For grain farmers, the Company’s primary customers, 2009 *net cash income* is forecast to have increased from 2008 by 12% for wheat farms and by 4% for cotton and rice farms, to have been flat for soybean farms and to have declined by 5% for corn farms.

Although grain prices declined in 2009 relative to 2008, crop receipts are expected to be at the second highest level on record according to the report. Crop prices have declined from the record levels seen in 2008, however, they continue to 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. Grain production also contributed to strong crop receipts with 2009 corn and soybean production at record levels of 13.2 billion and 3.4 billion bushels respectively. Lastly, farm production costs declined in 2009, the first year that costs have shown a decline since 2002.

Although high levels of income were generated by grain farmers in both 2008 and 2009, volatile financial markets and caution from recessionary conditions are believed to have resulted in lower spending by agricultural customers in 2009. Company revenues declined by 26% compared to 2008, which Management believes is largely a result of conservative purchasing by our customers in light of global economic uncertainty. It remains uncertain how continuing volatile financial markets will impact farmer sentiment and agriculture equipment purchases in 2010.

Company Management 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.

Currency Markets

The Company's financial results are impacted by changes in foreign currency rates – particularly the Canadian/US dollar exchange rate. After weakening by approximately one-third from 2002 to 2007, the US dollar stabilized and began to strengthen against the Canadian dollar in 2008. The US dollar plateaued in the first quarter of 2009, with an average rate of $1.25, however, weakened through the remainder of the year – averaging $1.06 in the fourth quarter. The average foreign exchange rate for 2009 was $1.1415 Cdn/US, up by 7% from the average 2008 rate of $1.0671.

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.

Change in Reporting Currency

Prior to 2008, the Company prepared and reported its financial statements in Canadian dollars. As the Company has grown, its operations have expanded significantly in the United States ("US"). A substantial portion of the Company's revenues and expenses are denominated in US dollars. In addition, most of the Company's competitors and comparable companies report in US dollars. In order to improve the comparability of the Company's publicly reported results with competitor and comparable companies, the Company elected to adopt the US dollar as its *reporting* currency for its 2008 and subsequent fiscal years. The Company continues to have a Canadian dollar *measurement* currency for its consolidated operations.

In effecting this change, the Company has followed the recommendations of the Emerging Issues Committee ("EIC") of the Canadian Institute of Chartered Accountants, set out in EIC-130, *Translation Method when the Reporting Currency Differs from the Measurement Currency or there is a Change in the Reporting Currency*. Based on the recommendations of EIC-130, the financial statements for all periods presented have been translated into US dollars using the Current Rate method. Under this method, the statements of operations and cash flows for each period have been translated into the reporting currency using the average exchange rates prevailing during each reporting period. All assets and liabilities have been translated using the exchange rate prevailing at the consolidated balance sheet dates. Shareholders' equity has been translated using the rates of exchange in effect as of the dates of the various capital transactions. All exchange differences resulting from the translation are included in accumulated other comprehensive income in shareholders' equity. All comparative information has been restated to reflect the Company's results as if they had been historically reported in US dollars.

Canadian and US dollar exchange rates prevailing during 2008 and 2009 are as follows:

	Quarter Ended							
	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009
Quarterly average	$ 1.0041	$ 1.0100	$ 1.0418	$ 1.2125	$ 1.2453	$ 1.1671	$ 1.0974	$ 1.0563
Quarter end	$ 1.0279	$ 1.0186	$ 1.0599	$ 1.2246	$ 1.2602	$ 1.1625	$ 1.0722	$ 1.0466

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.

All financial information referenced in this Management Discussion and Analysis is denominated in US dollars, unless otherwise indicated.

Reporting Segments

Prior to 2009, the Company carried out its activities in three reporting segments – Ground Agriculture, Air and Precision Products. During the second quarter of 2009, the Ground Agriculture and Air segments were combined into a single operating unit. At that time, the Company's Air office in Euless, Texas was closed and activities were transferred to employees in the Ground Agriculture business segment. As a result of these changes, for reporting purposes, the Company will now report activities under two reporting segments: Agriculture and Precision Products. Amounts reported in the past for Ground Agriculture and Air have been combined and reported as Agriculture.

Results of Operations

(000's) (expressed in U.S. dollars)	Years Ended December 31 2009	2008	2007
Sales	$ 53,638	$ 72,664	$ 53,661
Gross margin	25,857	36,804	25,277
	48.2%	50.6%	47.1%
Expenses			
Research and development	8,852	8,098	4,950
Sales and marketing	11,045	12,009	9,242
General and administrative	6,630	7,190	5,593
Stock-based compensation	720	700	614
Amortization	3,146	3,427	2,258
	30,393	31,424	22,657
Income (loss) before undernoted items	(4,536)	5,380	2,620
Foreign exchange (gain) loss	244	(626)	639
Interest income	(21)	(405)	(390)
Restructuring costs	876	251	–
Other income	–	(263)	–
Legal fees on settlement of lawsuit	–	151	2,950
Loss on sale of marketable securities	–	–	35
Income (loss) before income taxes	(5,635)	6,272	(614)
Income taxes	254	176	–
Income (loss) from continuing operations	(5,889)	6,096	(614)
Loss from discontinued operations	–	–	274
Net income (loss)	$ (5,889)	$ 6,096	$ (888)
Income (loss) per common share from continuing operations: Basic and diluted	$ (0.11)	$ 0.11	$ (0.01)
Income (loss) per common share: Basic and diluted	$ (0.11)	$ 0.11	$ (0.02)

Selected Balance Sheet Information

	As at December 31 2009	2008	2007
Total assets	89,322	87,655	99,819

Year Ended December 31, 2009 versus Year Ended December 31, 2008

Revenues

For the year ended December 31, 2009, revenues were $53.6 million representing a decline of 26% from $72.7 million in 2008.

Revenues from each of the Company's operating segments were as follows in 2009 and 2008:

(000's)	2009	2008	Change
Agriculture	$ 43,501	$ 61,770	-30%
Precision Products	10,137	10,894	-7%
	$ 53,638	$ 72,664	-26%

Revenues from the Agriculture segment were down by 30% compared to 2008. Customer purchasing activity was negatively impacted by the economic conditions which dampened spending within Hemisphere GPS' target markets during 2009. In addition, a relatively late North American harvest in 2009 is also believed to have reduced customer purchasing activity in Agriculture during the fourth quarter. Management believes that the economic climate 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 all product categories declined in 2009, the Company's auto-steering products showed less decline than other categories, including basic guidance products, as product sales represent both sales to new customers and buy-up sales to existing customers who own Outback guidance units. As in 2008, the eDriveTC™ auto-steering product was the largest single revenue-generating product for the Company.

Sales to non-agriculture markets through the Precision Products segment were less impacted during 2009 with a decline of just 7% in the year. These revenues include sales to marine, GIS, original equipment manufacture ("OEM") and other customers. Revenues for these products continue to benefit from a focus on expanding and improving the quality of Precision Products sales channels around the world as well as the introduction of new products, including dual frequency GPS products.

(000's)	2009	2008	Change
North America	$ 36,665	$ 50,966	-28%
Europe	9,411	10,014	-6%
Australia	1,429	3,520	-59%
Other	6,133	8,164	-25%
	$ 53,638	$ 72,664	-26%

In 2009, North American sales declined by 28%, whereas sales outside of North America declined by 22%. Sales to Europe showed the strongest relative performance in 2009 with a decline of just 6% with European OEM customers in Agriculture and Precision Products showing less impact from the recessionary conditions than customers in other locations.

In aggregate, sales to North America were about 68% of total revenues (2008 – 70%) and sales to non-North American customers were 32% (2008 – 30%) of total revenues.

Gross Margins

Gross margins were $25.9 million in the year, a decrease from gross margins of $36.8 million in 2008. Gross margins, as a percentage of revenue, were 48.2% in 2009 compared to 50.6% in 2008.

During 2009, gross margins were negatively affected by the impact of the weakening of the US dollar on inventory/cost of sales, lower high-margin software revenues and the impact of fixed manufacturing costs on lower revenues. While marketing programs and initiatives focused on revenue generation during 2009 reduced margins during the year, the impact of these programs was more than offset by a focus on overall price management and cost reduction initiatives in procurement, manufacturing and product design. The outsourcing of higher volume products to a manufacturing partner in China continues to contribute to stronger gross margins.

The weakening of the US dollar had a significant impact on gross margins for the year. As a result of lower than forecast revenues early in 2009, the Company realized a reduction in its inventory turnover rate for the year. A majority of the US dollar inventory sold or held by the Company over the last half of the year was acquired during the first and second quarter – when the US dollar was substantially stronger. As the Company has a Canadian dollar measurement currency, US dollar revenues earned in the last half of the year are recorded in Canadian dollars using the average foreign exchange rate for the last half of the year – which averaged $1.08. However, when inventories are sold and brought into Canadian dollar cost of sales, they are recorded at the weighted average historical foreign exchange rate applicable when those inventories were acquired – the first half average rate was about $1.21. The Company estimates that this had a negative impact on gross margins for the year of approximately 1.5%. This issue has had a less pronounced impact in previous years as significant foreign exchange rate moves have not been combined with the slower inventory movement.

Management responded to lower revenues through a reduction of headcount by 19 employees in its manufacturing department during the year. In spite of these reductions, the allocation of the remaining fixed manufacturing overhead across revenues that were lower by 26% had a negative impact of 0.5% on gross margins for the year.

Expenses and Other

Operating expenses were $30.4 million in 2009, down by $1.0 million or 3% from $31.4 million in 2008. In addition to headcount reductions of 19 employees in manufacturing, employee headcount included in operating expenses declined by 8 during the year driven by cost management initiatives implemented during the year. Other cost reductions from these initiatives, together with a reduction of incentive plan expenses in 2009 contributed to operating cost reductions. Offsetting these cost reductions were increased research and development project materials costs.

Investment in Research and Development

Investment in research and development for 2009 was $8.9 million compared to $8.1 million in 2008 representing an increase of 9%. This increase is primarily related to higher project material costs related to 2009 product development projects.

2009 research and development was 16% of revenue compared to 11% in 2008. The Company targets research and development to be 11-12% of revenue in order to maintain an appropriate investment level to maintain and expand its portfolio of technology and products. While lower than expected revenues in 2009 resulted in a ratio that exceeded Management targets, Management expects to trend these expenses back towards its targets in coming years.

Many of the research and development costs incurred in Canada qualify for scientific research and experimental development income tax treatment. This includes the elective deferral of research and development expenses and the eligibility for such expenses to earn investment tax credits. Research and development costs incurred in the United States and Australia also qualify for tax credits and other income tax concessions in certain circumstances.

Selling and General and Administrative Expenses

Sales and marketing expenses were $11.0 million in 2009, down by 8% from $12.0 million in 2008. General and administrative (“G&A”) expenses of $6.6 million declined by $0.6 million or 8% from $7.2 million in 2008. Expenses declined in both categories as a result of lower activity levels, lower headcount, cost management initiatives and reduced incentive plan expenses.

Amortization Expense

Amortization expense was $3.1 million in 2009, a decrease of $0.3 million from $3.4 million in 2008. This reduction is primarily a result of translation using a stronger average US dollar foreign exchange rate during 2009 compared to 2008.

Interest, Foreign Exchange and Other Income

In 2009, the Company recorded net interest income of $21 thousand compared to $0.7 million in 2008. The Company earned interest income on its cash balance, which was offset by interest expense on capital leases. Net interest income was lower in 2009 as a result of lower interest rates, a lower cash balance and interest on capital leases initiated during the year.

The Company incurred a foreign exchange loss of $0.2 million during 2009 compared to a gain of $0.6 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. Prior to the impact of risk management transactions, the Company realized a loss from foreign exchange of $2.4 million during 2009. Gains from foreign currency risk management transactions of $2.2 million are offset against this loss to derive the net foreign exchange loss of $0.2 million as reported. In 2008, the Company’s realized a gain from foreign exchange prior to the impact of risk management transactions of $4.7 million that was offset by losses from foreign currency risk management transactions of $4.1 million to derive the reported foreign exchange gain of $0.6 million. The Company’s foreign currency risk management program is described in the Liquidity and Capital Resources section of this MD&A.

Restructuring Costs

Restructuring costs of $0.9 million were incurred in 2009 arising from activities focused on improving the efficiency of the Company’s manufacturing and sales activities, including the closure of the Company’s office in Euless, Texas and other operational workforce reduction initiatives. As a result of these initiatives, headcount at December 31, 2009 is 231 employees, down by 31 employees from March 31, 2009 and by 27 employees from December 31, 2008.

Income taxes

For the year ended December 31, 2009, the Company recorded current income tax expense of $0.3 million relating to its US operations. There is no current year income tax expense recorded for any of the Company's tax jurisdictions as the Company has incurred taxable losses in each area. Tax expense recorded represents an adjustment on the filing of the Company's 2008 tax returns in certain US States.

2008 current tax expense of $0.2 million represented US alternative minimum tax ("AMT") payable on US alternative minimum taxable income, in spite of the availability of tax losses which fully shelter US taxable income for ordinary corporate tax purposes. AMT payable will be fully creditable against future US corporate income taxes, however, at December 31, 2008, no benefit for this potential recovery had been recorded as an asset in these financial statements.

In Canada, at the end of 2009, Hemisphere GPS Inc. has loss carry forwards of $12.6 million that can be used to reduce Canadian taxable income in future years, as well as investment tax credits in the amount of $2.9 million that can be used to reduce Canadian federal taxes otherwise payable in future years.

The Company's US operating subsidiaries, Hemisphere GPS Corporation, Hemisphere GPS LLC and CSI Wireless LLC, file as a combined entity for US federal tax purposes. At December 31, 2009, the Company has cumulative US net operating losses of $14.9 million that can be used to reduce US taxable income in future years, as well as $4.2 million of general business credits that can be used to reduce federal taxes otherwise payable in future years.

The Company's Australian subsidiaries, Hemisphere GPS Pty Ltd. and Hemisphere GPS AUS Pty Ltd., file as a combined entity for Australian income tax purposes. At December 31, 2009, the Company has losses of approximately $2.7 million available to reduce Australian taxable income in future years.

Earnings (Loss)

In 2009, the Company had a loss of $5.9 million or ($0.11) per share (basic and diluted), compared to net income of $6.1 million or $0.11 per share (basic and diluted) in 2008.

Summary of Quarterly Results

(000's)	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009
	For the Quarter Ended							
Sales	$25,909	$ 23,037	$ 13,201	$10,517	$17,955	$ 14,465	$ 9,069	$12,149
Gross margin	13,074	12,088	6,815	4,826	9,407	7,283	3,901	5,267
	51%	53%	52%	46%	52%	50%	43%	43%
Expenses:								
Research and development	1,804	2,026	1,943	2,324	2,101	1,996	2,345	2,410
Sales and marketing	3,298	3,299	2,729	2,683	3,225	2,832	2,514	2,474
General and administrative	1,966	2,168	1,657	1,399	1,575	1,763	1,684	1,608
Stock-based compensation	128	221	190	161	217	206	219	78
Amortization	928	911	861	728	713	763	831	839
	8,124	8,626	7,380	7,295	7,831	7,560	7,593	7,409
Earnings (loss) before undernoted items	4,951	3,462	(564)	(2,469)	1,576	(277)	(3,692)	(2,142)
Foreign exchange (gain) loss	(594)	323	(242)	(112)	(10)	179	76	(1)
Interest income	(115)	(92)	(89)	(109)	(9)	(7)	(2)	(2)
Other income	(263)	–	–	–	–	–	–	–
Legal fees on settlement of lawsuit	–	–	–	151	–	–	–	–
Restructuring costs	–	–	–	251	–	812	–	64
Gain (loss) on sale of marketable securities	–	–	–	–	–	–	–	–
Earnings (loss) before income tax	5,923	3,232	(233)	(2,650)	1,595	(1,261)	(3,766)	(2,203)
Income tax	114	62	–	–	–	–	–	254
Net Earnings (loss)	5,809	3,170	(233)	(2,650)	1,595	(1,261)	(3,766)	(2,457)
Net earnings (loss) per common share *:								
Basic and diluted	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)	$ 0.03	$ (0.02)	$ (0.07)	$ (0.04)

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

Sales by segment on a quarterly basis are as follows:

	For the Quarter Ended							
(000's)	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009
Agriculture	$ 23,160	$ 20,047	$ 10,146	$ 8,417	$ 15,755	$ 11,794	$ 6,385	$ 9,567
Precision Products	2,749	2,990	3,055	2,100	2,200	2,671	2,684	2,582
	$25,909	$ 23,037	$ 13,201	$10,517	$ 17,955	$ 14,465	$ 9,069	$12,149

Quarterly results have varied during the past eight quarters due, in part, to the following factors:

1. A large component of Hemisphere GPS agriculture-related revenues are derived from the North American markets which are subject to the seasonality of the agricultural buying season with the first half of the year being the strongest and the second half being the weakest. Initiatives to mitigate the seasonality include increasing sales efforts in the Southern Hemisphere which is generally counter-seasonal to the Northern hemisphere agricultural seasons and increasing sales efforts on non-agriculture markets.

2. The volatility and decline of the financial and commodities markets during the last half of 2008 had a significant impact on customer purchasing – particularly during the fourth quarter of 2008 and during 2009. OEM, international and retail customers in each of the Company's segments responded to the economic conditions by reducing purchases in light of the associated uncertainty. It appears that the impact of these conditions began to mitigate during the fourth quarter of 2009.

Quarter Ended December 31, 2009 versus Quarter Ended December 31, 2008

Revenues

Revenues from each of the Company's operating segments during the fourth quarter were as follows:

(000's)	**Q4 2009**	**Q4 2008**	**Change**
Agriculture	$ 9,567	$ 8,417	14%
Precision Products	2,582	2,100	23%
	$ 12,149	$ 10,517	16%

Fourth quarter revenues of $12.1 million increased by 16% from revenues of $10.5 million in the fourth quarter of 2008. Revenues from OEM and distributors in both the Agriculture and Precision segments was very strong during the fourth quarter of 2009 relative to 2008. Agriculture sales of guidance, auto-steering, GPS receivers and other GPS components contributed to the growth. For the Precision Products segment, growth was lead by sales of OEM kits and component products.

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

(000's)	Q4 2009	Q4 2008	Change
North America	$ 7,386	$ 7,453	-1%
Europe	2,431	2,009	21%
Australia	118	189	-38%
Other	2,214	866	156%
	$ 12,149	$ 10,517	16%

International revenues showed strong performance compared to the fourth quarter of 2008 with particular strength in Asia, South America and Europe. North American revenues were relatively flat compared to 2008 as a result of a very late harvest.

Gross Margins

Gross margins in the fourth quarter of 2009 were 43.3% and $5.3 million, compared to 45.9% and $4.8 million in the fourth quarter of 2008. The primary factor contributing to lower gross margins during the fourth quarter was the impact of the significant weakening of the US dollar. Gross margins were positively impacted during the quarter by cost reductions, product mix and by higher software revenues compared to 2008.

The Company reduced headcount by 19 employees in its manufacturing department compared to the fourth quarter of 2008. For the fourth quarter, this had a positive net impact on gross margins, in spite of lower revenues.

The weakening of the US dollar also had a significant impact on gross margins for the quarter. With the decline in revenues experienced in 2009, the Company has realized a reduction in its inventory turnover for the year. As a result, a majority of the US dollar inventory held by the Company during the fourth quarter was acquired during the first and second quarters – when the US dollar was substantially stronger than it was during the fourth quarter. As the Company has a Canadian dollar measurement currency, US dollar revenues earned in the fourth quarter are converted into Canadian dollars using the fourth quarter foreign exchange rate – which averaged $1.0563. However, when inventories are sold and brought into Canadian dollar cost of sales, they are recorded at the weighted average historical foreign exchange rate applicable when those inventories were acquired – which averaged approximately $1.21 for the first and second quarters. The Company estimates that this had a negative impact on gross margins of approximately 6% in the fourth quarter, in part due to the fourth quarter of 2008 having an opposite foreign exchange impact. This issue has had a less pronounced impact on quarters prior to the third quarter of 2009 as significant foreign exchange rate moves have not been combined with the slower inventory movement.

Expenses and Other

Operating expenses of $7.4 million in the fourth quarter were up $0.1 million or 2% from $7.3 million in the fourth quarter of 2008. The weaker US dollar negatively impacted operating expenses by approximately $0.4 million in total as Canadian and Australian-denominated expenses are translated into the US dollar reporting currencies at weaker exchange rates.

Research and development expenses increased by $0.1 million relative to 2008 as a result of higher project material costs associated with specific product developments. Sales and marketing expenses decreased by $0.2 million or 8% from the fourth quarter of 2008 as a result of lower headcount and other cost reduction initiatives, offset by higher commissions. General and administrative expenses increased from the fourth quarter of 2008 by $0.2 million or 15%. Cost reductions from headcount reductions and other cost control initiatives was offset by a fourth quarter of 2008 incentive plan accrual adjustment that reduced expenses in that quarter.

Interest and Foreign Exchange

Interest income, net of expense, in the fourth quarter of 2009 was $2 thousand compared to $109 thousand in the same quarter of 2008. The Company earned interest income on its cash balance, which was offset by interest expense on capital leases entered during 2009. The net balance declined in 2009 as a result of a lower cash balance, lower interest rates and interest expense associated with new capital leases.

The Company reported a foreign exchange gain in the fourth quarter of $1 thousand. Netted against this loss is a foreign currency risk management gain of $213 thousand. In the fourth quarter of 2008, the Company reported a foreign exchange gain of $112 thousand, which was net of a foreign currency risk management loss of $3.3 million. The Company's foreign currency risk management program is described in the Liquidity and Capital Resources section of this MD&A.

Income Tax

The Company recorded current income tax expense of $0.3 million relating to its US operations during the fourth quarter of 2009 which represents adjustments on the filing of the Company's 2008 tax returns in certain US States.

Earnings (Loss)

In the fourth quarter of 2009, the Company incurred a loss of $2.5 million, or ($0.04) per share (basic and diluted), compared to a fourth quarter 2008 loss of $2.6 million or ($0.05) per share (basic and diluted).

Liquidity and Capital Resources

Working Capital

The Company held cash of $8.4 million at December 31, 2009 compared to $16.3 million at the end of 2008.

Accounts receivable at December 31, 2009 was $6.0 million, versus $7.4 million at December 31, 2008. In North America, the Company's *Outback*™ Ground Agriculture product line is generally sold directly to end customers and these sales typically take place with prepayment by cash, credit card or other financing options. Therefore, the accounts receivable balance represents primarily sales of non-Outback product lines, or sales of Outback products outside of North America. Hemisphere GPS employs established credit approval and regular account monitoring practices to mitigate the credit risk associated with accounts receivable. At December 31, 2009, the Company had a reserve for potential bad debts totaling $496 thousand compared to $219 thousand at the end of 2008.

Inventories consist of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory levels increased from $14.0 million at December 31, 2008 to $17.8 million at the end of December 2009. Inventory was originally built in anticipation of strong sales during the first half of the year, which is historically the strongest buying season for Hemisphere GPS. Softer than anticipated sales did not draw down inventory levels as expected. Physical inventory levels reported in the Company's Canadian dollar measurement currency peaked in March and have drawn down since. However, the weakening US dollar has offset this trend to some extent for reported inventory levels. Quarter-end inventory has reflected the following levels and rates:

	Measurement Currency	**FX Rate**	**Reporting Currency**
Mar 31, 2009	Cdn$22.6 million	$1.2602	US$17.9 million
Jun 30, 2009	Cdn$21.6 million	$1.1625	US$18.6 million
Sep 30, 2009	Cdn$20.7 million	$1.0722	US$19.3 million
Dec 31, 2009	Cdn$18.6 million	$1.0466	US$17.8 million

Foreign Currency Risk Management Program

While the Company has adopted the US dollar as the reporting currency, the Canadian dollar remains the measurement currency. As a result, fluctuations in the Canadian dollar to US dollar foreign exchange rate impact the translated value of the Company's working capital denominated in US dollars - giving rise to foreign currency translation gains and losses. The Company has implemented a foreign currency risk management program to mitigate the impact of foreign currency fluctuations.

The Board of Directors has approved the execution of financial instruments with a maximum notional value of US$40 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. The Company enters financial instruments which are settled for cash using the Bank of Canada noon day rate as the reference foreign exchange rate.

During 2009, the Company reported a foreign exchange loss of $0.2 million which is net of foreign currency risk management gains of $2.2 million under the foreign currency risk management program. In 2008, the Company reported a foreign exchange gain of $0.6 million, which is net of foreign currency risk management losses of $4.1 million.

Property and Equipment

The Company's capital assets are primarily comprised of computer hardware and software and equipment for production and research purposes. In addition, capital assets include furniture and fixtures, vehicles and leasehold improvements.

During 2009, the Company invested $1.0 million in property and equipment compared to $1.9 million in 2008. The most significant 2009 capital additions included: production molds, computer network equipment and vehicles used in Agriculture sales and marketing.

Intangible Assets

Intangible assets include assets acquired through acquisition including trademarks and brands, customer relationships, marketing and distribution assets and technology as well as capitalized development costs. The Company's intangible assets have accrued as a result of the following acquisitions:

- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007

During 2009, intangible asset additions of $1.1 million represent the costs associated with the development of integrated circuits that will be utilized in future product developments.

Goodwill

The Company has goodwill of $40.9 million at December 31, 2009 compared to $35.0 million at December 31, 2008. There was no change in the balance of goodwill during 2009, when measured using the Company's Canadian dollar measurement currency. Rather, the change relates entirely to the weakening of the US dollar foreign exchange rates during the year. Goodwill carried on the Company's balance sheet arose in the course of the following Agriculture segment acquisitions:

- Satloc business assets – March 1999
- Outback marketing and distribution assets – April 2005
- Del Norte Technologies business assets – January 2006
- Beeline Technologies Pty Ltd. – December 2007

In accordance with Canadian generally accepted accounting principles, goodwill is assessed for impairment annually, or more often if an event or circumstance indicates that an impairment loss may have occurred. Management completed its annual assessment of the carrying value of the goodwill reported in the Consolidated Balance Sheet at December 31, 2009 and concluded that no impairment exists as of that date.

Hemisphere GPS determined the fair value of its reporting units at December 31, 2009 using a "discounted cash flow" model consistent with recognized valuation methods. The most significant assumptions underlying the model prepared by Management include: revenues, revenue growth, gross margins, operating expenses, income taxes, weighted average cost of capital, and capital expenditures. Significant factors impacting these assumptions include estimates of future market share, competition, technological developments, interest rates, and market trends. The assumptions incorporated into the discounted cash flow model reflect Management's long-term view of the Company's business and the markets in which it competes.

In formulating its conclusions, Management also considered a variety of related information, including:

- Market capitalization, considering the share price at December 31, 2009, the average share price for 2009 and share prices subsequent to December 31, 2009;
- the impact of premiums to obtain control of companies on valuations for transactions in the public markets;
- the impact on share prices of reduced liquidity in the public markets;
- valuations of comparable publicly traded companies; and
- the expected impact of negative financial markets on the Company's long-term business activities.

Borrowings and Credit Facilities

The Company has a bank operating line of credit with a maximum limit of $7 million. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The utilization of this line of credit draws interest at prime plus 0.5%. The Corporation has entered into a general security agreement with its bank to secure such indebtedness. There were no balances drawn against this line of credit at the end of 2009 or 2008.

Share Capital

At March 18, 2010, there were 55,561,676 common shares outstanding.

During 2008, 631,907 stock options were exercised for cash proceeds of $1.2 million. No stock options were exercised in 2009.

On September 10, 2008 the Company announced a Normal Course Issuer Bid to purchase for cancellation, from time to time, up to 2,822,204 of its issued and outstanding common shares (being no greater than 5% of the issued and outstanding common shares at September 10, 2008) on the open market through the facilities of the Toronto Stock Exchange. During the remainder of the year, the Company purchased 945,200 common shares at an average price of Cdn $2.07. 718,500 of these shares were cancelled during 2008 and the remaining 226,700 shares were cancelled in early 2009. The repurchase resulted in a reduction in share capital of $1.5 million, an increase in contributed surplus of $0.3 million and an immaterial increase in the deficit in 2008 and a reduction in share capital of $0.5 million in 2009. There were no further purchases under this program during 2009.

Cash Flow

Hemisphere GPS used $5.9 million of cash in its operations in 2009 after the net change in non-cash operating working capital. This was generated by the loss from operations during the year and by working capital changes including the drawdown of accounts payable, the increase in inventory and the settlement of foreign exchange contracts.

Cash outflows during the year included $1.0 million of cash used for the purchase of property and equipment and $1.1 million for additions to intangible assets.

Hemisphere GPS ended the year with cash of $8.4 million. Giving consideration to the uncertainty associated with global financial markets, Management believes that its business prospects, together with a strong balance sheet, put the Company in a good position moving forward in 2010 and to weather negative conditions that may continue in 2010. Historically, the first and second quarters of each calendar year represent the strongest period of cash generation from operations for the Company.

Related Party Transactions

The Company had no transactions with related parties during 2009.

Critical Accounting Policies and Estimates

The Company prepares its consolidated financial statements in accordance with accounting principles generally accepted in Canada. 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 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 reporting units.
4. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future tax does not meet the required level of certainty. At December 31, 2009, valuation allowances are provided for the full amount of future 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.

Business and Market Risks

The nature of the Company's business gives rise to certain risks that may impact future financial results. In addition to risks described elsewhere in this report, the Company identifies the following risks to currently be the most significant:

1. *Financial Results*

   The Company incurred a loss for the full 2009 year, as well as during the years ended December 31, 2005, 2006 and 2007. While 2008 and 2004 were profitable years, the Company incurred losses in each of the three years prior to 2004.

   It is possible that losses will occur in any of the four quarters of 2010 and that a loss could be realized for the full 2010 year. This could arise from the impact of current negative macro-economic conditions, or the Company could fail to execute on its business plan. Future revenues, gross margins and expenses are subject to many factors beyond the Company's control, including:
   - the liquidity and business plan execution of customers;
   - general industry conditions;
   - the rate of acceptance of the Company's products;
   - new technologies in the marketplace;
   - the development and timing of the introduction of new products;
   - price and product competition from competitors;
   - the product mix of the Company's sales;

- possible delays in manufacturing or shipment of the Company's products;
- possible delays or shortages in component supplies;
- other risk factors described in this MD&A; and
- other risk factors not foreseen at this time.

2. *Foreign Currency Valuation Fluctuations*
Sales of the Company's products are transacted primarily in US dollars. Expenses are incurred in US dollars, Canadian dollars and Australian dollars, and as a result, the Company is exposed to risk associated with US, Canadian and Australian dollar currency fluctuations. A weakening in the US dollar relative to the Canadian dollar, as was seen over the years 2003 to 2007, and during 2009, results in higher relative US dollar expenses for the Company when compared to a stronger US dollar.

   The Company denominates substantially all of its sales in US dollars. A stronger US dollar, compared to the currencies of countries where Hemisphere GPS is selling its products, makes the Company's products more expensive to customers in those countries. As a result a strengthening US dollar, as was seen during the last half of 2008 could have a negative impact on sales to such countries. As the Company expands with increased global sales, it is expected that it may be necessary to transact sales in foreign currencies other than US dollars, thus exposing the Company to additional foreign currency risk.

   The Company entered into derivative financial instruments to manage the foreign currency exposure of US dollar denominated working capital under its board-approved foreign exchange risk management program. Although this program has been implemented, there is no guarantee the Company will not experience foreign exchange gains and losses in future periods.

3. *General Economic and Financial Market Conditions*
In 2008 and 2009, the Company faced extremely negative conditions in global economic, financial and vertical markets. Continued or increasingly negative conditions in market and business environments, or adverse geopolitical events, could have a negative impact on the Company's 2010 performance. The Company's agricultural product sales have typically been affected to some extent each year by drought conditions in certain markets. For example, a drought has continued for several years in significant regions in Australia which has negatively impacted sales of agriculture guidance products into that market. Should negative weather conditions arise in any of the Company's key markets in 2010, the Company could realize lower-than-expected revenues in the impacted market areas.

4. *Dependence on Key Personnel and Consultants*
The Company's success is largely dependent upon the performance of personnel and key consultants. The unexpected loss or departure of any key officers, employees or consultants could be detrimental to the future operations. The success of the Company will depend, in part, upon the ability to attract and retain qualified personnel, as they are needed. The competition for highly skilled technical, research and development, management, and other employees is high in the GPS industry. There can be no assurance that we will be able to engage the services of such personnel or retain our current personnel.

5. *Competition*
The Company is competing in a highly competitive industry that is constantly evolving and changing. The Corporation expects this competition to increase as new competitors enter the market. Many of our competitors have greater financial, technical, sales, production and marketing resources. We compete with companies that also have established customer bases and greater name recognition. This may allow competitors to respond more quickly to the GPS market and to better implement technological developments. There is no assurance that the Company will be able to compete on the same scale as these companies. Such competition may result in reduced sales, reduced margins or increased operating expenses.

6. *Third Party Dependence*

Many of the Company's products rely on signals from satellites, and other ground support systems, that it does not own or operate. Such satellites and their ground support systems are complex electronic systems subject to electronic and mechanical failures and possible sabotage. The satellites have limited design lives and are subject to damage by the hostile space environment in which they operate. If a significant number of satellites were to become inoperable, there could be a substantial delay before they are replaced with new satellites. A reduction in the number of operating satellites would impair the current utility of the Global Positioning System ("GPS") and/or the growth of current and additional market opportunities, which would adversely affect our results of operations. In addition, there is no assurance that the US government will remain committed to the operation and maintenance of GPS satellites over a long period of time or that the policies of the US government for the commercial use of GPS without charge will remain unchanged.

7. *Dependence on New Products*

The Company must continue to make significant investments in research and development to develop new products, enhance existing products and achieve market acceptance for such products. However, there can be no assurance that development-stage products will be successfully completed or, if developed, will achieve significant customer acceptance. If the Company is unable to successfully define, develop and introduce competitive new products, and enhance existing products, future results would be adversely affected.

8. *Intellectual Property*

The industry in which the Company operates has many participants that own, or claim to own, proprietary intellectual property. The Company has received, and may receive, claims from third parties claiming that the Company has infringed on their intellectual property rights. Determination of the rights to intellectual property is very complex, and costly litigation may be required to establish if the Company has violated the intellectual property rights of others. As a result of such claims, the Company could be subject to losses arising from product injunctions, awards for damages and third party litigation costs, requirements to license intellectual property, legal expenses, diversion of Managements' time and attention, and other costs.

9. *Government Regulation*

The Company's products are subject to government regulation in the United States, Canada and other regions in which we operate. Although the Company believes that it has obtained the necessary approvals for the products that it currently sells, it may not be able to obtain approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or the Company may not be able to obtain regulatory approvals from countries in which it may desire to sell products in the future.

10. *Availability of Key Supplies*

The Company is reliant upon certain key suppliers for raw materials and components, and no assurances can be given that we will not experience delays or other difficulties in obtaining supplies, as a result of trade disputes, financial failures impacting suppliers, or from a variety of other potential issues. The raw materials used in certain operations are available only through a limited number of vendors. Although the Company believes there are alternative suppliers for most of its key requirements, if current suppliers are unable to provide the necessary raw materials or fail to deliver products in the quantities required on a timely basis, then the related delays in the manufacture or distribution of products could have a material adverse effect on the Company's results of operations and its financial condition.

11. *Credit Risk*

The Company has undergone significant sales growth resulting in a significant growth in its customer base. As a result, the Company has an increasing exposure to credit risk related to trade balances owing from customers. In the normal course of business, the Company monitors the financial condition of its customers and reviews the credit history of new customers to establish credit limits. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances. Losses could be realized by the Company if customers default on their balances owing.

12. *Technology Risk*

The Company's success in the GPS markets may depend in part on our ability to develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. The Company's products embody complex technology that may not meet those standards, changes and preferences. Hemisphere GPS may be unable to successfully address these developments on a timely basis or at all. Failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause the Company to be unable to recover significant research and development expenses and could reduce its revenue.

13. *Future Acquisitions*

The Company may seek to expand its business and capabilities through the acquisition of compatible technology, products or businesses. There can be no assurance that suitable acquisition candidates can be identified and acquired on favourable terms, or that the acquired operations can be profitably operated or integrated into the Company. In addition, any internally generated growth experienced by the Company could place significant demands on Management, thereby restricting or limiting the Company's available time and opportunity to identify and evaluate potential acquisitions. To the extent Management is successful in identifying suitable companies or products for acquisition, the Company may deem it necessary or advisable to finance such acquisitions through the issuance of Common Shares, securities convertible into Common Shares, debt financing, or a combination thereof. In such cases, the issuance of Common Shares, Preferred Shares or convertible securities could result in dilution to the holders of Common Shares at the time of such issuance or conversion. The issuance of debt to finance acquisitions may result in, among other things, the encumbrance of certain assets, impeding the Company's ability to obtain bank financing, decreasing its liquidity, and adversely affecting its ability to declare and pay dividends to its shareholders.

14. *Proprietary Protection*

The Company's success will depend, in part, on its ability to obtain patents, maintain trade secrets and unpatented know-how protection, and to operate without infringing on the proprietary rights of third parties or having third parties circumvent its rights. The Company relies on a combination of contract, copyright, patent, trademark and trade secret laws, confidentiality procedures and other measures to protect its proprietary information. There can be no assurance that the steps taken will prevent misappropriation of its proprietary rights. The Company's competitors also could independently develop technology similar to its technology. Although the Company does not believe that its products or services infringe on the proprietary rights of any third parties, there can be no assurance that infringement or invalidity claims (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against the Company, or that any such assertions or prosecutions will not materially adversely affect its business, financial condition or results of operations. Irrespective of the validity or the successful assertion of such claims, the Company could incur significant costs and diversion of resources with respect to the defense thereof, which could have a material adverse effect on its business.

15. *Conflicts of Interest*

Certain directors of the Company are engaged and will continue to be engaged in the design, manufacture and marketing of electronic products, and situations may arise where the directors may be in direct competition with the Company. Conflicts of interest, if any, which arise will be subject to and governed by the procedures prescribed by the Alberta Business Corporations Act ("ABCA") which require a director or officer of a corporation who is a party to, or is a director or an officer of, or has a material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under the ABCA.

16. *Product Liability*
The sale and use of the Company's products entail risk of product liability. Although the Company has product liability insurance, there is no assurance that such insurance will be sufficient or will continue to be available on reasonable terms.

17. *New and Emerging Markets*
Many of the markets for the Company's products are new and emerging. The Company's success will be significantly affected by the outcome of the development of these new markets.

18. *Physical Facilities*
The Company has facilities in several different locations, as well as component inventory, finished goods and capital assets at third-party manufacturing facilities. Tangible property at each location is subject to risk of fire, earthquake, flood, and other natural acts of God. In the event of such acts, there could be delays in production and shipments of product due to both the loss of inventory and/or capacity to produce.

19. *Legal Risks*
In common with other companies, the Company is subject to legal risks related to operations, contracts, relationships and otherwise under which it may be served with legal claims. Whether or not the claims are legally valid, such claims may result in legal fees, damages, settlement costs and other costs as well as significant time and distraction of Management and employees – which could negatively impact the Company's ability to execute its business plans.

Disclosure Controls and Procedures

Disclosure controls and procedures have been designed with the objective to ensure that information required to be disclosed by the Company is accumulated and communicated to the Company's Management as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer have concluded, based on testing and evaluation as of December 31, 2009, that the disclosure controls and procedures are operating as designed and are effective to provide reasonable assurance that material information related to the Company and its subsidiaries is made known to them on a timely basis.

It should be noted that while the Company's Chief Executive Officer and Chief Financial Officer believe that the Company's disclosure controls and procedures have been designed with the objective to provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures or internal controls over financial reporting would prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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 Canadian GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, Management have conducted an evaluation of the effectiveness of our internal controls over financial reporting as of December 31, 2009. Based on its evaluation, Management concluded that our internal controls over financial reporting were effective as of that date.

Changes in Internal Control Over Financial Reporting

Prior to 2008, Management has reported the following identified weaknesses in its internal controls over financial reporting:

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 properly segregated due to the limited number of staff.

During 2009, Management implemented processes to reduce the risks arising from these weaknesses, including the transfer of certain incompatible functions and controls relating to the engagement of specialists where complex transactions or issues arise. As a result of the changes implemented, the Chief Executive Officer and the Chief Financial Officer have concluded that these issues no longer represent weaknesses in the Company's internal controls over financial reporting.

International Financial Reporting Standards

The Canadian Accounting Standards Board (AcSB) has confirmed a strategic plan to converge Canadian GAAP with International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. IFRS is likely to result in a change in certain of the Company's accounting policies and may require restatements for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. In order to mitigate the impact of adoption to IFRS, the AcSB will continue to issue accounting standards that are converged with IFRS.

The Company has appointed a member of Management to lead the conversion process who has undertaken training relating to IFRS. A changeover plan has been developed. Under this plan, the Company is in the assessment and evaluation phase of the conversion. This phase of the project includes, among other things:

- identifying the differences between existing Canadian GAAP and IFRS,
- evaluating and making decisions regarding elections and accounting policies that are appropriate under IFRS,
- developing plans regarding the conversion of accounting and business processes associated with the changes, and
- preparing training plans for staff.

In carrying out this phase of the project, Management engaged its auditors, KPMG, LLP, to assist with the assessment of an evaluation comparing the Company's accounting policies to IFRS and identifying the key areas that need to be addressed in the IFRS conversion process. This evaluation was completed mid-2009. Subsequent to this evaluation, Management has acquired a Canadian-based third party software system that supports a more detailed evaluation of the Company's accounting policies and that supports the conversion project.

As of the date of this report, all accounting policies have been reviewed using the software tool referenced above. The Company has made preliminary decisions relating to elections and accounting policies under IFRS, however, at this point in time additional review and approvals by Management and the Company's Audit Committee are required before such decisions will be finalized. Related to certain of the preliminary decisions and analysis completed, Management is in the process of evaluating specific internal process changes that will be required to support accounting policy and disclosure provisions under IFRS.

At this point in time, based upon the evaluation completed to date, and due to the limited complexity of the Company’s operations, Management does not expect significant changes to its business activities or its information systems to accommodate the IFRS transition.

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

Years ended December 31, 2009 and 2008

(expressed in U.S. dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management of Hemisphere GPS Inc. is responsible for the preparation and the presentation of the consolidated financial statements and related information published in the annual report. These statements were prepared in accordance with generally accepted accounting principles in Canada.

The preparation of the financial information necessarily requires the use of some estimates and judgements, such as selection and application of accounting principles appropriate to the circumstances and with due consideration to materiality. Where appropriate, management seeks and receives guidance in these matters from external legal, accounting and other advisors.

To ensure the reliability of the financial statements, management relies on the Company's system of internal controls. The accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable.

Management continuously monitors and adjusts the Company's internal controls and management information systems to accommodate a changing environment while ensuring financial integrity.

The Board of Directors is responsible for overseeing management's responsibility for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee which is comprised entirely of independent directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues; to satisfy itself that each party is properly discharging its responsibilities; and to review Management's Discussion and Analysis, the consolidated financial statements and the external auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board of Directors and approval by the shareholders, the engagement or re-appointment of the external auditors.

Management also recognizes its responsibility for ensuring that the Company, at all times, conducts its affairs in an ethical manner, conforming to all applicable laws and regulations, and in accordance with the highest standards of personal and corporate conduct.

Cameron Olson
Sr. Vice President & Chief Financial Officer
March 19, 2010
Calgary, Canada

Steven Koles
President & Chief Executive Officer
March 19, 2010
Calgary, Canada

HEMISPHERE GPS INC.

Consolidated Balance Sheets

December 31, 2009 and 2008
(expressed in U.S. dollars)

	2009	2008
Assets		
Current assets:		
Cash and cash equivalents	$ 8,397,418	$ 16,288,684
Accounts receivable	5,986,781	7,409,108
Inventories	17,751,949	14,016,645
Deferred commissions	187,436	215,402
Prepaid expenses and deposits	628,023	679,863
	32,951,607	38,609,702
Deferred commissions	158,171	171,852
Property and equipment (note 2)	7,905,708	6,871,801
Intangible assets (note 3)	7,386,776	7,029,627
Goodwill	40,919,957	34,972,095
	$ 89,322,219	$ 87,655,077
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,030,075	$ 6,634,059
Foreign exchange contract (note 11(d))	–	3,270,210
Deferred revenue	1,242,573	1,484,166
Current portion of capital lease (note 4)	89,637	–
	5,362,285	11,388,435
Deferred revenue	819,888	1,035,220
Capital lease (note 4)	258,426	–
Shareholders' equity:		
Share capital (note 5)	107,708,468	108,162,136
Share capital purchased for cancellation under Normal Course Issuer Bid (note 5(e))	–	(450,633)
Contributed surplus (note 6)	3,853,826	3,134,045
Deficit	(40,121,337)	(34,232,193)
Accumulated other comprehensive income (loss)	11,440,663	(1,381,933)
	82,881,620	75,231,422
Commitments (note 9)		
Contingencies (note 10)		
	$ 89,322,219	$ 87,655,077

See accompanying notes to consolidated financial statements.

Approved by the Board:

Paul Cataford, Director

Michael Lang, Director

HEMISPHERE GPS INC.

Consolidated Statements of Operations and Deficit

Years ended December 31, 2009 and 2008
(expressed in U.S. dollars)

	2009	2008
Sales	$ 53,638,296	$ 72,663,712
Cost of sales	27,781,060	35,860,059
	25,857,236	36,803,653
Expenses:		
Research and development	8,851,616	8,097,446
Sales and marketing	11,044,783	12,009,367
General and administrative	6,630,584	7,189,844
Stock-based compensation (note 5(d))	719,781	699,875
Amortization	3,145,974	3,427,272
	30,392,738	31,423,804
Income (loss) before undernoted items	(4,535,502)	5,379,849
Foreign exchange loss (gain)	244,332	(625,840)
Interest and other income	(20,697)	(668,673)
Restructuring costs (note 12)	876,094	250,742
Legal fees on settlement of lawsuit	–	151,700
Income (loss) before income taxes	(5,635,231)	6,271,920
Income taxes (note 7)	253,913	175,911
Net income (loss)	(5,889,144)	6,096,009
Deficit, beginning of year	(34,232,193)	(40,469,714)
Adjustment due to adoption of new accounting policy (note 1(d))	–	150,135
Adjustment due to Normal Course Issuer Bid (note 5(e))	–	(8,623)
Deficit, end of year	$(40,121,337)	$(34,232,193)
Net income (loss) per common share:		
Basic and diluted	$ (0.11)	$ 0.11
Weighted average shares outstanding:		
Basic	55,561,676	54,798,890
Diluted	55,561,676	55,132,241

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)

Years ended December 31, 2009 and 2008
(expressed in U.S. dollars)

	2009	2008
Net income (loss)	$ (5,889,144)	$ 6,096,009
Translation of assets and liabilities into U.S. dollar reporting currency	12,822,596	(18,607,593)
Comprehensive income (loss)	$ 6,933,452	$ (12,511,584)
Accumulated other comprehensive income (loss), beginning balance	$ (1,381,933)	$ 17,225,660
Translation of assets and liabilities into U.S. dollar reporting currency	12,822,596	(18,607,593)
Accumulated other comprehensive income (loss), ending balance	$ 11,440,663	$ (1,381,933)

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008
(expressed in U.S. dollars)

	2009	2008
Cash flows from (used in) operating activities:		
Net income (loss)	$ (5,889,144)	$ 6,096,009
Items not involving cash:		
Amortization	3,408,519	3,715,875
Stock based compensation	719,781	699,875
Unrealized foreign exchange (gain) loss	1,193,512	(4,571,105)
Cash from (used in) operations	(567,332)	5,940,654
Change in non-cash operating working capital:		
Accounts receivable	2,731,328	(1,567,739)
Inventories	(655,460)	(1,661,374)
Prepaid expenses and deposits	161,598	(233,241)
Deferred commissions	97,701	31,798
Accounts payable and accrued liabilities	(3,541,335)	(279,785)
Foreign currency contract	(3,270,210)	3,270,210
Note payable	–	(322,680)
Deferred revenue	(836,473)	(147,935)
	(5,880,183)	5,029,908
Cash flows from (used in) financing activities:		
Capital leases	(21,247)	(101,003)
Issue of share capital, net of issue costs	–	1,060,771
Repurchase of shares for cash	–	(1,675,947)
	(21,247)	(716,179)
Cash flows used in investing activities:		
Purchase of property and equipment	(1,031,215)	(1,858,711)
Intangible asset additions	(1,132,280)	–
Business acquisition	–	(92,654)
	(2,163,495)	(1,951,365)
Increase (decrease) in cash position	(8,064,925)	2,362,364
Effect of currency translation on cash balances and cash flows	173,659	470,541
Cash and cash equivalents, beginning of year	16,288,684	13,455,779
Cash and cash equivalents, end of year	$ 8,397,418	$ 16,288,684
Cash and cash equivalents consist of:		
Cash	$ 4,397,418	$ 2,288,684
Term deposits	$ 4,000,000	$ 14,000,000
Supplemental disclosure:		
Interest paid	$ 34,944	$ 34,720
Income taxes paid	$ 537,815	$ 317,279

See accompanying notes to consolidated financial statements.

Hemisphere GPS Inc. (the "Company") is incorporated under the laws of the Province of Alberta. The Company is actively involved in the design, manufacture, marketing and sale of precision Global Positioning System (“GPS”) products and technologies.

1. Significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All inter-company transactions have been eliminated upon consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and term deposits with a Canadian chartered bank with original maturity dates of three months or less.

(c) Revenue recognition:

The Company generates revenue from the sale of equipment, software, extended service programs and from the provision of engineering services.

Revenues from the sale of equipment and software are recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Accruals for warranty costs, sales returns and other allowances at the time of shipment are based upon contract terms and anticipated claims.

Revenues from the sale of extended service programs are recorded as deferred revenue at the time that payment is received and are recognized on a pro-rata basis over the extended service period. Commissions paid on extended service program revenues are recorded as deferred charges at the time they are paid, and are expensed on a pro-rata basis over the extended service period.

Revenues from non-recurring engineering services are recognized as specific contract milestones are met. The attainment of milestones approximates actual performance.

(d) Inventories:

Inventories are valued at the lower of cost and net realizable value. Cost is determined on an average cost basis and net realizable value is defined as the estimated selling price less estimated costs of completion and sale. The cost of work in process and finished goods include materials, labor and production overheads. Provisions for obsolete inventory are based on Management’s best estimates which consider a variety of factors that may affect the carrying values of inventories. These factors include, but are not limited to, market demand, technology changes and design changes.

1. **Significant accounting policies (continued):**

As of January 1, 2008, the Company adopted newly issued accounting standards for inventories, relating to the method of accounting for inventory and the related disclosures. The Company adopted this accounting standard retrospectively, without restatement of prior year results, resulting in a decrease in the opening deficit of $150,135.

During the year ended December 31, 2009, the Company recorded write-downs of slow moving and obsolete inventories in the amount of $722,955 (2008 – $1,009,653). These amounts have been included in cost of goods sold.

(e) Property and equipment:

Property and equipment is recorded at cost. Amortization is provided at the following annual rates:

Assets	Method	Rate
Leasehold improvements	straight-line	4 – 20 years
Computer equipment and software	declining balance	30%
Office and production equipment	declining balance	20% – 30%
Licenses and other assets	straight-line	2 – 10 years

Amortization is charged from the date of acquisition of an asset.

(f) Research and development costs:

Ongoing research and development costs, net of related government incentives and grants, are charged to earnings in the current period. During the year the Company received $nil (2008 – $200,701) grants relating to research and development activities.

(g) Goodwill:

On October 1, 2008, the Company adopted the new accounting standard Section 3064 “Goodwill and Intangible Assets”. The adoption of the Section 3064 had no effect on the consolidated financial statements.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company’s reporting units that are expected to benefit from the business combination.

Goodwill is not amortized, but is tested for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of a reporting unit’s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. As a result of the current year's assessment, no impairment loss has been recognized on goodwill.

(h) Intangible assets:

Intangible assets are carried at cost, with the carrying value of these assets being assessed whenever an event or changes in circumstances indicate that their carrying amount may not be recoverable.

Amortization is provided using the straight line method at the following annual rates:

Assets	Rate
Trademarks and brands	20 years
Customer relationships	5 years
Marketing and distribution assets	5 years
Technology	5 years

(i) Per share amounts:

The calculation of basic net income (loss) per common share is based on the weighted average number of common shares outstanding. Diluted net income (loss) per common share is calculated using the treasury stock method.

(j) Foreign currency translation:

In preparation of consolidated financial statements in the Company's measurement currency, foreign currency balances of the Company's foreign subsidiaries, which are considered to be integrated, are translated on the following basis:

- monetary assets and liabilities are translated at the rates of exchange prevailing at the balance sheet dates.
- non-monetary assets, liabilities and related amortization expense are translated at historical rates.
- sales and expenses are translated at the average rate of exchange during the month in which they are recognized.

Any resulting foreign exchange gains and losses are included in net income (loss).

1. **Significant accounting policies (continued):**

(k) Stock-based compensation plan:

The Company applies the fair value method to all stock-based payments and awards. Under the fair value method, the Company calculates the fair value of stock option grants or direct awards of stock and records that fair value as compensation expense over the vesting period of those grants and awards, and an equal amount is recorded in contributed surplus. Upon exercise of stock options, the amount of compensation expense previously recorded in contributed surplus is moved to share capital.

(l) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences - the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis. Future income tax assets and future income tax liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to settle. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment.

To the extent that future income tax assets are not considered more likely than not to be realized, a valuation allowance is provided.

(m) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Financial instruments and comprehensive income:

Financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. These standards require that all financial instruments within the scope of the standards, including all derivative instruments, be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The Company designated cash and cash equivalents and foreign currency financial instruments as “held for trading” and any change in fair value is recorded through net income (loss). Accounts receivable are designated as “loans and receivables”, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as “other financial liabilities” which are measured at amortized cost.

1. Significant accounting policies (continued):

For the year ended December 31, 2009, the Company adopted the amendments to CICA Handbook Section 3862, Financial Instruments-Disclosures, which establishes additional disclosure requirements regarding the level in the fair value hierarchy in which fair value measurements are categorized for assets and liabilities and related disclosures.

(o) Recent accounting pronouncements:

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, and Handbook Section 1602, Non-Controlling Interests, which together replace Handbook Section 1600, Consolidated Financial Statements. These two sections are equivalent to the corresponding provisions of IFRS standard 27. CICA also issued Handbook Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, and provides the equivalent to IFRS 3R, Business Combinations. These new sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. These new sections will only have an impact on the consolidated financial statements of the Company for acquisitions made subsequent to the date of adoption.

2. Property and equipment:

December 31, 2009	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 3,607,495	$ 967,243	$ 2,640,252
Computer equipment and software	6,923,864	4,559,880	2,363,984
Office and production equipment	7,037,358	4,712,723	2,324,635
Licenses and other assets	1,043,661	466,824	576,837
	$18,612,378	$10,706,670	$ 7,905,708

December 31, 2008	Cost	Accumulated amortization	Net book value
Leasehold improvements	$ 3,069,250	$ 591,311	$ 2,477,939
Computer equipment and software	5,414,764	3,356,386	2,058,378
Office and production equipment	5,428,063	3,447,608	1,980,455
Licenses and other assets	637,071	282,042	355,029
	$14,549,148	$ 7,677,347	$ 6,871,801

Included in computer equipment and software is equipment under capital lease with a cost of $390,240 (2008 – nil), accumulated amortization of $nil (2008 – $nil) and a net book value of $390,240 (2008 – $nil).

3. Intangible assets:

December 31, 2009	Cost	Accumulated amortization	Net book value
Trademarks and brands	$ 2,511,321	$ 571,854	$ 1,939,467
Customer relationships	757,390	306,123	451,267
Marketing and distribution assets	2,288,405	2,143,177	145,228
Technology	7,851,087	3,000,273	4,850,814
	$13,408,203	$ 6,021,427	$ 7,386,776

December 31, 2008	Cost	Accumulated amortization	Net book value
Trademarks and brands	$ 2,146,292	$ 381,693	$ 1,764,599
Customer relationships	647,301	132,167	515,134
Marketing and distribution assets	1,955,777	1,441,548	514,229
Technology	5,693,972	1,458,307	4,235,665
	$10,443,342	$ 3,413,715	$ 7,029,627

Included in technology is internally developed intangible assets with a cost of $1,132,280 (2008 – $nil).

4. Capital lease obligations:

The Company has certain computer equipment under capital lease expiring 2013. Estimated lease payments are as follows:

	Amount
2010	$ 114,551
2011	114,551
2012	114,551
2013	57,271
Minimum lease payments	400,924
Less: interest portion (at a rate of 8.1%)	52,861
Net minimum lease payments	348,063
Less: current portion	89,637
	$ 258,426

The equipment under capital lease has been recognized in property and equipment at the present value of minimum lease payments. Interest charges on leased equipment during the year were approximately $15,000.

5. 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 only of common shares, as follows;

	Number of Shares	Amount
Balance, December 31, 2007	48,819,341	$ 86,592,382
Issued on exercise of stock options	631,907	1,184,483
Exercise of Special Warrants	5,555,600	17,446,061
Share issue costs	–	(1,331,389)
Exercise of Performance Warrants	1,500,028	5,234,580
Transfer from contributed surplus on exercise of stock options	–	522,075
Purchased and cancelled under Normal Course Issuer Bid	(718,500)	(1,486,056)
Balance, December 31, 2008	55,788,376	$108,162,136
Purchased and cancelled under Normal Course Issuer Bid	(226,700)	(453,668)
Balance, December 31, 2009	55,561,676	$107,708,468

5. Share capital (continued):

(c) Stock options:

The Company has a stock option plan, whereby options to purchase common shares may be issued to directors, officers, employees, key consultants and agents of the Company subject to certain terms and conditions. Stock options granted vest over a period of two to four years and expire at various dates through 2014.

At December 31, 2009, there were 4,831,609 (2008 – 4,256,347) stock options outstanding. In aggregate, the Company's shareholders have approved the issuance of total stock options with a rolling maximum limit equal to 10% of outstanding common shares.

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of year	4,256,347	$ 2.14	2,785,468	$ 1.77
Granted	1,097,596	0.86	2,142,500	1.84
Exercised	–	–	(631,907)	1.56
Forfeited	(522,334)	2.44	(39,714)	1.55
Stock options outstanding, end of year	4,831,609	$ 1.82	4,256,347	$ 1.84
Exercisable at year end	2,227,768	$ 2.14	1,999,790	$ 1.92

	Options outstanding			Options exercisable	
Range of exercise prices outstanding	Number outstanding at December 31, 2009	Weighted average remaining contractual life (months)	Weighted average exercise price	Number exercisable at December 31, 2009	Weighted average exercise price
$0.79 – 1.00	840,075	60	$ 0.78	–	$ –
1.01 – 2.00	2,335,561	36	1.40	1,310,333	1.50
2.01 – 3.00	1,359,725	37	2.82	621,187	2.77
3.01 – 3.60	296,248	4	3.48	296,248	3.48
$0.79 – 3.60	4,831,609	38	$ 1.82	2,227,768	$ 2.14

5. Share capital (continued):

(d) The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: zero dividend yield; weighted average volatility of 67%; risk-free rate of 0.5%; and expected lives of 4.5 years. The weighted average fair value of options granted during the year was CDN$0.48 (2008 – CDN$1.43) per option. The Company recorded $719,781 (2008 – $699,875) as compensation expense during the year.

(e) Normal Course Issuer Bid:

On September 10, 2008 the Company announced a Normal Course Issuer Bid to purchase for cancellation, from time to time, up to 2,822,204 of its issued and outstanding common shares (being no greater than 5% of the issued and outstanding common shares at September 10, 2008) on the open market through the facilities of the Toronto Stock Exchange. During 2008, the Company purchased 945,200 common shares at an average price of CDN$2.07. 718,500 of these shares were cancelled during 2008 and 226,700 shares were cancelled during 2009. This program expired on September 10, 2009.

In 2009, repurchases under this program resulted in a $453,668 reduction in share capital. For 2008, repurchases resulted in a $1,486,056 reduction in share capital, an $8,623 increase in deficit and a $270,594 increase in contributed surplus.

6. Contributed surplus:

Balance, December 31, 2007	2,685,651
Stock-based compensation expense	699,875
Stock options exercised	(522,075)
Normal Course Issuer Bid	270,594
Balance, December 31, 2008	3,134,045
Stock-based compensation expense	719,781
Balance, December 31, 2009	$ 3,853,826

7. Income taxes:

Income tax expense varies from the amount that would be computed by applying the combined Federal and Provincial income tax rate of 29% (2008 – 29.5%) to earnings before income tax as follows:

	2009	2008
Expected income tax (recovery)	$(1,634,217)	$ 1,850,216
Increase (decrease) resulting from:		
Unrecognized future tax assets	(746,294)	(2,409,204)
Permanent differences	476,170	581,870
Impact of future enacted tax rates and exchange rate	2,007,789	(2,168,392)
Impact of foreign jurisdiction tax rates	176,260	1,327,187
Impact of review and update of prior years' tax filings	(25,795)	818,323
Alternative Minimum Tax Expense	–	175,911
Income tax expense	$ 253,913	$ 175,911

The components of the Company's net future income tax assets, no portion of which has been recorded in these financial statements, are as follows:

	Asset (Liability)			
December 31, 2009	Canada	United States	Australia	Total
Net operating losses	$ 3,151,520	$ 5,946,516	$ 762,442	$ 9,860,479
Research and development tax pools	1,985,604	–	–	1,985,604
Property and equipment	(28,660)	1,311,851	–	1,283,190
Share issue costs	157,946	–	–	157,946
Goodwill	–	(2,434,496)	–	(2,434,496)
Reserves	148,604	–	–	148,604
Inventory	–	36,000	–	36,000
	$ 5,415,014	$ 4,859,871	$ 762,442	$11,037,327

	Asset (Liability)			
December 31, 2008	Canada	United States	Australia	Total
Net operating losses	$ 1,730,197	$ 6,362,897	$ 636,828	$ 8,729,922
Research and development tax pools	1,295,960	–	–	1,295,960
Property and equipment	16,000	1,427,992	–	1,443,992
Share issue costs	211,320	–	–	211,320
Goodwill	–	(1,688,915)	–	(1,688,915)
Reserves	100,383	–	–	100,383
Inventory	–	36,000	–	36,000
	$ 3,353,860	$ 6,137,974	$ 636,828	$10,128,662

7. Income taxes (continued):

The net operating loss carry-forwards reflected above expire as follows:

	Net operating losses
United States:	
2022	$ 2,256,000
2023	1,842,000
2024 and beyond	10,768,000
	$ 14,866,000
Canada:	
2010	478,000
2014	2,134,000
2015 and beyond	9,995,000
	$12,607,000

There is no time limit imposed on Australian income tax loss carryforwards of $2,677,405.

The Company has unrecognized tax credits totaling $2,920,000 in Canada, and $4,198,000 in the United States relating to its research and development activities.

8. Segmented information:

Prior to 2009, the Company had three operating segments: the Ground Agriculture, Air and Precision Products business segments. During the second quarter of 2009, the Ground Agriculture and Air business units were combined into a single business segments under a single General Manager. The Company's Air sales office in Euless Texas was closed and activities were transferred to staff of the Ground Agriculture business segment. As a result of these changes, for reporting purposes, the Company now reports activities under two operating segments: Agriculture and Precision. Comparative amounts for Ground Agriculture and Air have been combined and reported as Agriculture.

The Company's chief operating decision maker is the President and Chief Executive Officer. The President and CEO reviews financial information relating to the two operating segments, including revenues and the contribution of the segment to the shared costs of the Company. The activities of the operating segments defined by the Company are:

(a) Agriculture – this segment sells products for ground and air based precision agriculture applications.

(b) Precision – this segment sells precision GPS products for non-agricultural markets including marine and geographic information systems applications, among others.

8. Segmented information (continued):

Each 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.

2009	Agriculture	Precision	Shared	Total
Sales	$ 43,501,000	$ 10,137,000	$ –	$ 53,638,000
Contribution (loss)	$ 6,598,000	$ 3,757,000	$(16,244,000)	$ (5,889,000)

2008	Agriculture	Precision	Shared	Total
Sales	$ 61,770,000	$ 10,894,000	$ –	$ 72,664,000
Contribution (loss)	$ 19,917,000	$ 3,313,000	$(17,134,000)	$ 6,096,000

Assets and sales by geographic segment:

	Assets		Sales	
	2009	2008	2009	2008
United States	$ 50,637,000	$ 49,092,000	$ 26,398,000	$ 35,926,000
Canada	20,070,000	21,376,000	10,267,000	15,040,000
Europe	–	–	9,411,000	10,014,000
Australia	18,615,000	17,187,000	1,429,000	3,520,000
Other	–	–	6,133,000	8,164,000
	$ 89,322,000	$ 87,655,000	$ 53,638,000	$ 72,664,000

Sales are attributed to geographic segments based on the location of the customer. The net book value of property and equipment located in Canada is $2,553,445 (2008 – $2,140,278), United States is $5,115,869 (2008 – $4,417,017) and Australia is $236,394 (2008 – $314,506).

9. Commitments:

The Company is committed to annual minimum operating lease payments, excluding tenant-operating costs, of:

2010	1,111,404
2011	929,021
2012	565,186
2013	463,663
2014	445,883
Thereafter	224,897

Effective July 1, 2006, the Company entered into a five year lease for a building in Hiawatha, Kansas that is being used as the distribution centre for the Company's Agriculture segment. The building is leased from the City of Hiawatha for annual rent of $120,000. If the Company meets certain headcount growth thresholds over the term of the lease, the lease payments are forgiven. For the period July 1, 2006 to December 31, 2009 lease payments have been forgiven.

If the Company has met the growth thresholds at the end of the lease, the Company will have the option to purchase the building for $1.00. If the Company has not met the thresholds, then the Company will have the option to purchase the building for a range of amounts up to the fair market value of the building at that time. It is uncertain as to whether the growth thresholds will be met at this point in time, accordingly, the Company has accounted for this as an operating lease at December 31, 2009.

10. Contingencies:

The Company is subject to claims and contingencies related to lawsuits and other matters arising in the normal course of operations. Management believes the ultimate liability, if any, arising from such claims or contingencies, is not likely to have a material adverse effect on the Company's results of operations or financial condition.

11. Financial instruments and financial risk management:

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments.

The nature of these instruments and the Company's operations expose the Company to the following risks:

(a) Credit risk:

Credit risk reflects the risk that the Company may be unable to collect amounts due to the Company from customers for its products or for other transactions that may be entered by the Company. The extent of the risk depends on the credit quality of the party from which the amount is due.

11. Financial instruments and financial risk management (continued):

The Company employs established credit approval and monitoring practices to mitigate this risk, including reviewing the creditworthiness of new customers to establish credit limits, monitoring customer payment performance and, where considered appropriate, reviewing the financial condition of its existing customers and other debtors. The Company has determined that an allowance of $496,000 (2008 – $219,000) is required in respect of the gross amount of accounts receivable. The Company establishes an allowance for doubtful accounts based upon individual account assessment along with the credit risk of its customers, historical trends and economic circumstances.

The aging of the accounts receivable as at year end is as follows:

	2009
Current, 1 – 30 days	$ 4,390,000
31 – 60 days	485,000
61 – 90 days	364,000
Greater than 90 days	1,244,000
	6,483,000
Provision	(496,000)
	$ 5,987,000

The movement is the allowance for doubtful accounts as at year end is as follows:

	Provision
Balance, December 31, 2008	$ 219,000
Provision	342,000
Accounts receivable written off	(65,000)
Balance, December 31, 2009	$ 496,000

(b) Interest rate risk:

The Company is exposed to interest rate risk on cash balances or term deposits earning interest income and to the extent that it may draw on its operating line of credit or carry other forms of debt which calculate interest as a function of variable interest rates. At December 31, 2009, the Company does not carry material liabilities that are exposed to variable interest rates.

(c) Liquidity risk:

The Company may be exposed to liquidity risk if it is unable to collect its trade accounts receivable balances on a timely basis, which in turn could impact the Company's ability to meet commitments to creditors. The Company manages its liquidity risks by carrying a target level of cash on its balance sheet, by maintaining a conservative capital structure, by prudently managing its credit risks and by maintaining sufficient capacity within its credit facilities to meet any near-term liquidity requirements.

11. Financial instruments and financial risk management (continued):

(d) Foreign exchange risk:

The Company is exposed to foreign exchange risk primarily in the following ways:

i. Cashflow – A significant portion of the Company’s revenues and expenses are denominated in US dollars, however certain of its expenses are denominated in Canadian dollars and Australian dollars.

ii. Working capital – The Company has a Canadian dollar measurement or functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in US dollars and Australian dollars. At year end, working capital denominated in US dollars was approximately $11.5 million. A 1% change in Canadian to US dollar exchange rate will impact net income by approximately $115,000. At year end, working capital denominated in Australian dollars was not material.

The Company mitigates its exposure to foreign currency risk in the following ways:

i. Cashflow – The Company mitigates its cashflow exposures by incurring costs, where practical, in US dollars to match the currency of the majority of its revenues. The Company has not in the past managed its cashflow foreign currency exposures through the use of financial instruments, however, may enter financial instruments to mitigate this exposure if considered appropriate.

ii. Working capital – The Company enters into financial instruments designed to offset the exposure to US and Australian dollar denominated working capital. The Board of Directors has approved the execution of financial instruments with a maximum notional value of US$40 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. When considered appropriate, the Company enters into financial instruments which are settled for cash using the Bank of Canada noon day rate as the reference foreign exchange rate.

    These financial instruments are recorded at fair value each reporting period with changes in fair value recorded in net earnings. These financial instruments are categorized as “Level 2” under fair value hierarchy which includes input that are observable for the asset or liability , either directly (i.e. as prices) or indirectly (i.e. derived from prices).

    The Company does not use forward contracts for trading or speculative purposes. Foreign exchange contracts are recorded at fair value with changes in fair value recognized through earnings and are included in “Foreign exchange loss (gain)” in the Consolidated Statement of Operations and Deficit. There were no foreign exchange contracts outstanding at December 31, 2009.

12. Restructuring costs:

During the year, 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 workforce reduction programs. The costs associated with these activities during the year were $876,000 (2008 – $251,000) which include costs of $200,000 for lease-break costs related to the Euless office, $128,000 of severance and other costs associated with the closure of the Euless office and $551,000 (2008 – $251,000) related to the workforce reduction programs. During the year, the Company paid $700,000 (2008 – $91,000) of these costs.

13. Capital management:

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to seek to provide returns for shareholders and benefits for other stakeholders, to maintain an optimal structure to reduce the cost of capital and to facilitate the growth strategy of the Company.

The Company monitors its capital management through analysis of near-term and mid-term cashflow expectations to ensure an adequate amount of liquidity and through the monthly review of financial results and business expectations. The Company considers the shareholders' equity to be the capital of the Company.

Based upon the dynamic nature of the technology markets that the Company engages in, and the low level of tangible assets required, the capital strategy is to carry a very low level of debt (including capital lease). Although a formal debt to equity ratio has not been established by the Company, the ratio of debt to equity has not exceeded 5% at year end in each of the last four years.

Where considered appropriate by Management and/or the Board of Directors, the Company may incur and carry long-term debt from time to time as a result of expansion activities, including acquisitions.

14. Comparative figures:

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

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