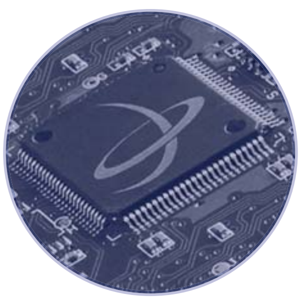

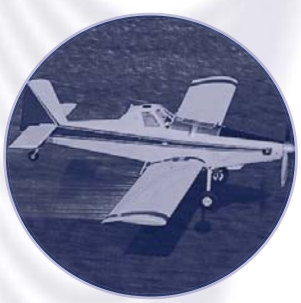

# Q1 Interim Report

## March 31, 2009

Hemisphere GPS®

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Hemisphere GPS®

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**Message to Shareholders**

For our first quarter ended March 31, 2009, Hemisphere GPS reported a 31% decrease in revenues to $18.0 million, versus $25.9 million in the first quarter of 2008. Customer purchasing activity in the agriculture sector was at the low end of our expectations due to cautious recessionary spending. Further, the relative strength of a robust first quarter of 2008 amplified the year-over-year relative performance comparison.

For the quarter Hemisphere GPS reported net income of $1.6 million, or $0.03 per share versus $5.8 million, or $0.11 per share, in the first quarter of 2008. At March 31, 2009, we held cash of $12.5 million, or $0.23 per share, and shareholders' equity was $1.37 per share

While the near-term outlook remains uncertain, mid and long-term conditions in the agricultural markets remain positive and unchanged from our earlier assessment. In its recent February 2009 updated Farm Income and Costs estimate, the US Department of Agriculture ("USDA") projects that net farm income – which includes both crop and livestock farms – was $89.2 billion for 2008, which is 46% higher than the 10-year average. Crop prices remain high by historical standards, driven by lower grain inventory levels and increasing global demand, arising from growing demand for ethanol and other grain-based biofuels as well as the changing diets of emerging economies. Offsetting price increases to some extent are production cost increases from fertilizer, seed and fuel expenses, expected to rise by 65%, 29% and 25% respectively. However, despite the good sector fundamentals and financial health of farmers, spending remained cautious in the early part of the North American selling season.

We view the fundamentals of the global agriculture markets to be positive for the mid to longer term. However, volatile financial markets and caution from recessionary fears appear to be resulting in the deferral of farmer equipment purchases in 2009. The fundamental supply and demand drivers underlying the mid to long term agriculture market opportunity remain; population growth, limited arable land, requirements for increased yields and output, and a relatively low penetration of precision agriculture technologies such as GPS and auto-steering.

Although fundamentals remain reasonably strong in the agriculture markets, first quarter revenues decreased in both the Ground Agriculture and Air product lines. This also impacted purchases by OEM and system integrator customers. The global financial uncertainty had a similar impact on customers in the Precision Products line leading to a decline in revenues of 20% compared to the first quarter of 2008.

For the first quarter, North American revenues decreased 35% and international revenues decreased 13%. European revenues were very strong in the first quarter with year over year growth of 39%, where the expansion of the Company's European distribution network and strong purchases from certain European OEM and systems integrator customers contributed to the increase in that region. Sales to Australia and other international regions declined by 48% and 57% respectively, partly due to the substantial strengthening of the US dollar which increases the price for Hemisphere GPS products which are priced in US dollars.

Europe was also a bright spot for us in the quarter, where we saw sales increase European 39%. This is the result of network expansion initiatives and some healthy orders coming in from our European OEM partners in both Ground Agriculture and Marine sectors. The relatively stronger Euro relative to other international currencies has helped maintain traction in the European market.

The Outback S3 has been out for a year now and continues to be a great seller. The new Outback Sts touch screen launched in February attained some good traction in March, while our entry level S-Lite, was our top seller internationally in the quarter. We have several new product introductions coming in the remainder of the year in both current and new vertical markets, inclusive of aftermarket and OEM offerings.

Despite good sector fundamentals and initiatives to stimulate demand, the current global economic climate has reduced spending and we now expect an overall revenue decline for 2009 – though not to the extent of the first quarter since the relative strength of the comparable first quarter of 2008 amplified the comparative decrease. We expect the back half of 2009, in particular, to compare much more favourably year-over-year and project full year revenues of at least $60 million.

Operationally, our company is sound, our technology and products are better than ever, and we are very pleased with the scale potential of the business even in a short term down market. We have tremendous future prospects ahead associated with new products, new customers, and additional regional expansion. We are managing the company effectively and efficiently as the recessionary challenges play out and expect better year-over-year performance for the remainder of 2009.

Despite the decrease in first quarter revenues, gross margin increased to a record 52.4% of revenues from 50.5% in the first quarter of 2008. Cost reductions through outsourced manufacturing of an increased number of component and finished goods products has been a key driver in this margin improvement. In addition, the weakening of the Canadian dollar relative to the US dollar has had a positive impact on gross margins as a portion of cost of sales is denominated in Canadian dollars, whereas revenues are denominated almost entirely in US dollars. The Canadian dollar weakened by approximately 24% compared to the first quarter of 2008.

Research and development expenses for the quarter increased from $1.8 million to $2.1 million. The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets. During 2008 and in the first quarter of 2009, the Company has continued to build the strength of its research and development capabilities.

In January, Hemisphere GPS announced two new patents had been awarded. These patents, relating to agriculture vehicle guidance using GPS data, and implement control, bring the total number of patents issued or pending to nearly 50.

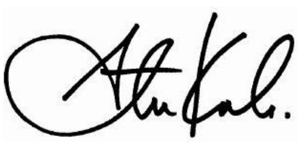
In February, Hemisphere GPS announced the new Outback Sts™ (S touch screen). It is the latest addition to the Outback line of situational awareness and data management tools. Outback Sts combines features of the successful Outback S2™ with a user-friendly high-resolution colour touch screen interface. The functionality of Outback Sts includes electronically integrated Outback steering and is expandable with the Outback eDriveTC GPS-assisted steering system, and Outback AutoMate™, an automatic boom control system. Features are powered by Crescent®, the Company's advanced patented GPS receiver technology. Information can be stored on internal memory or data can be transferred via the USB port.

We continue expansion initiatives by adapting our product portfolio to cater to many regions of the world through adding product features and language support. By making existing products more inclusive and developing new products specific to targeted market regions, Hemisphere GPS continues its commitment to broadening its global market share. We have pushed further into China this quarter, where the use of fertilizer has increased by 80% - giving an indication of the activity within the Chinese Agriculture market. We believe a tremendous opportunity is developing for our precision agriculture technology in that region. In 2008 alone, the Chinese central budget allocated approximately US$84 billion for farmers, agriculture and development of rural areas, representing a 36% increase from the previous year. According to the Chinese Ministry of Agriculture, there are over 17 million agriculture-related tractors in China.

We are managing the business responsibly through this period of reduced purchasing due to economic uncertainty, which is a function of the broader economy and negative media headlines. We will continue to work through these cautionary conditions with the objective to maintain profitability. The business remains extremely healthy with a strong balance sheet and no debt.

The medium to long term global market opportunity we are pursuing exists as much today as it did previously. The fundamental demand and supply drivers of this market opportunity have not changed. We have tremendous future prospects associated with new products such as next generation steering, automation and control capabilities; new customers including more traction with OEM's; and new markets – both geographic and vertical. We are well positioned to capture these opportunities as cautionary conditions subside.

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



Steven Koles
President & CEO

# Interim Management Discussion and Analysis

Three month period ended March 31, 2009

The following discussion and analysis is effective as of April 23, 2009 and should be read together with the unaudited interim consolidated financial statements of Hemisphere GPS Inc. ("Hemisphere GPS" or the "Company") for the three month period ended March 31, 2009 and the accompanying notes. Additional information relating to Hemisphere GPS, including the Company's Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com and which is supplemental to the unaudited interim consolidated financial statements and notes for the three month period ended March 31, 2009.

## Overview

Hemisphere GPS 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. Hemisphere GPS organizes its activities along three primary product lines: ground agriculture products, aerial agriculture products and precision products for non-agriculture markets (including marine and geographic information systems). The primary vertical market for the Company's products is agriculture representing approximately 85% of its revenues. 70% of 2008 revenues were from customers in North America.

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

## Economic and Market Trends

*Financial Markets*

2008 saw significant declines across a variety of financial markets resulting in substantial volatility and uncertainty on a global basis together with recessionary conditions in many economies. Hemisphere GPS was not immune from the impact of these economic conditions. In particular, agriculture-related customers are impacted by volatility in grain commodity prices associated with the agriculture markets, as well as input costs such as seed, gasoline and fertilizer.

*Agriculture Markets*

While the near-term outlook remains uncertain, mid and long-term conditions in the agricultural markets remain positive and unchanged from management's earlier assessment. In its February 2009 updated *Farm Income and Costs* estimate, the US Department of Agriculture ("USDA") projects that *net farm income* – which includes both crop and livestock farms – will be $89.2 billion for 2008, 46% higher than the 10-year average. Crop prices remain high by historical standards, driven by lower grain inventory levels and increasing global demand, arising from growing demand for ethanol and other grain-based biofuels as well as the changing diets of emerging economies. Offsetting price increases to some extent are production cost increases from fertilizer, seed and fuel expenses, expected to rise by 65%, 29% and 25% respectively. Despite the good sector fundamentals and financial health of farmers, spending remained cautious in the early part of the North American selling season.

The Company's Management views the fundamentals of the global agriculture markets to be positive for the mid to longer term; population growth, limited arable land, requirements for increased yields and output, and a relatively low penetration of precision agriculture technologies such as GPS and auto-steering. However, volatile financial markets and caution from recessionary fears appear to be resulting in the deferral of discretionary farm equipment purchases in 2009. In the first quarter of 2009, Company revenues were down by 31%, which Management believes is largely a result of conservative purchasing by our customers in light of global economic uncertainty.

*Currency Markets*

The Company's financial results are impacted by changes in foreign currency rates – particularly the Canadian/US dollar exchange rate. After weakening from 2002 to 2007, the US dollar stabilized against the Canadian dollar for the full year of 2008 where the average rate for the year was largely flat with the average for 2007. However, the US dollar began to strengthen against the Canadian dollar during the last half of 2008 and into 2009. The average foreign exchange rate for the first quarter of 2009 was $1.2453 Cdn/US, up by 24% from $1.0041 in the first quarter of 2008.

A stronger US dollar is positive for the Company's earnings as a portion of the Company's expenses are incurred in Canadian and Australian dollars – and such expenses are reduced when translated at a stronger US dollar foreign exchange rate. However, at the same time, the stronger US dollar relative to global currencies increases the cost of the Company's products in international markets – as sales are made in US dollars and may have a negative impact on international revenues.

Canadian and US dollar exchange rates prevailing during 2007 and 2008 are as follows:

| | Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 30 2007 | Sep 30 2007 | Dec 31 2007 | Mar 31 2008 | Jun 30 2008 | Sep 30 2008 | Dec 31 2008 | Mar 31 2009 |
| Quarterly average | $ 1.0981 | $ 1.0446 | $ 0.9818 | $ 1.0041 | $ 1.0100 | $ 1.0418 | $ 1.2125 | $ 1.2453 |
| Quarter end | $ 1.0634 | $ 0.9963 | $ 0.9881 | $ 1.0279 | $ 1.0186 | $ 1.0599 | $ 1.2246 | $ 1.2602 |

## Results of Operations

### Summary of Quarterly Results

| (000's) | Jun 30 2007 | Sep 30 2007 | Dec 31 2007 | Mar 31 2008 | Jun 30 2008 | Sep 30 2008 | Dec 31 2008 | Mar 31 2009 |
|---|---|---|---|---|---|---|---|---|
| Sales | $ 14,473 | $ 9,069 | $ 13,471 | $25,909 | $ 23,037 | $ 13,201 | $10,518 | $ 17,955 |
| Gross margin | 6,752 | 4,198 | 6,079 | 13,074 | 12,088 | 6,815 | 4,826 | 9,407 |
| | 47% | 46% | 45% | 51% | 53% | 52% | 46% | 52% |
| Expenses: | | | | | | | | |
| Research and development | 1,181 | 1,240 | 1,449 | 1,804 | 2,026 | 1,943 | 2,324 | 2,101 |
| Sales and marketing | 2,006 | 1,855 | 2,742 | 3,298 | 3,299 | 2,729 | 2,683 | 3,225 |
| General and administrative | 1,440 | 1,291 | 1,726 | 1,966 | 2,168 | 1,657 | 1,399 | 1,575 |
| Stock-based compensation | 168 | 126 | 133 | 128 | 221 | 190 | 161 | 217 |
| Amortization | 511 | 559 | 673 | 928 | 911 | 861 | 728 | 713 |
| | 5,306 | 5,070 | 6,721 | 8,124 | 8,626 | 7,380 | 7,295 | 7,831 |
| Earnings (loss) before undernoted items | 1,446 | (871) | (642) | 4,951 | 3,462 | (564) | (2,469) | 1,576 |
| Foreign exchange (gain) loss | 249 | 404 | 27 | (594) | 323 | (242) | (112) | (10) |
| Interest income | (133) | (100) | (94) | (115) | (92) | (89) | (109) | (9) |
| Other income | – | – | – | (263) | – | – | – | – |
| Legal fees on settlement of lawsuit | 966 | 1,347 | 96 | – | – | – | 151 | – |
| Restructuring costs | – | – | – | – | – | – | 251 | – |
| Gain (loss) on sale of marketable securities | (35) | – | – | – | – | – | – | – |
| Earnings (loss) before income tax | 329 | (2,522) | (671) | 5,923 | 3,232 | (233) | (2,650) | 1,595 |
| Income tax | – | – | – | 114 | 62 | – | – | – |
| Earnings (loss) before discontinued operations | 329 | (2,522) | (671) | 5,809 | 3,170 | (233) | (2,650) | 1,595 |
| Income (loss) from discontinued operations | (111) | (102) | 29 | – | – | – | – | – |
| Net earnings (loss) | $ 218 | $ (2,624) | $ (642) | $ 5,809 | $ 3,170 | $ (233) | $ (2,650) | $ 1,595 |
| Earnings (loss) per common share from continuing operations *: | | | | | | | | |
| Basic and diluted | $ 0.01 | $ (0.05) | $ (0.01) | $ 0.11 | $ 0.06 | $ (0.00) | $ (0.05) | $ 0.03 |
| Net earnings (loss) per common share *: | | | | | | | | |
| Basic and diluted | $ 0.00 | $ (0.06) | $ (0.01) | $ 0.11 | $ 0.06 | $ (0.00) | $ (0.05) | $ 0.03 |

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

Sales by segment on a quarterly basis are as follows:

| | For the Quarter Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Jun 30 | Sep 30 | Dec 31 | Mar 31 | Jun 30 | Sep 30 | Dec 31 | Mar 31 |
| (000's) | 2007 | 2007 | 2007 | 2008 | 2008 | 2008 | 2008 | 2009 |
| Ground Agriculture | $ 11,589 | $ 5,585 | $ 10,369 | $ 20,417 | $ 18,641 | $ 9,021 | $ 7,534 | $ 13,607 |
| Air | 1,134 | 1,276 | 1,056 | 2,743 | 1,406 | 1,125 | 883 | 2,148 |
| Precision Products | 1,750 | 2,208 | 2,046 | 2,749 | 2,990 | 3,055 | 2,100 | 2,200 |
| | $ 14,473 | $ 9,069 | $ 13,471 | $25,909 | $ 23,037 | $ 13,201 | $10,517 | $ 17,955 |

**Quarter Ended March 31, 2009 versus Quarter Ended March 31, 2008**

***Revenue***

For the three months ended March 31, 2009, revenue was $18.0 million, down 31% from revenues of $25.9 million for the same period of 2008. Revenues from each of the Company's operating segments were as follows in the first quarter of 2009 and 2008:

| (000's) | **Q1 2009** | **Q1 2008** | **Change** |
|---|---|---|---|
| Ground Agriculture | $ 13,607 | $ 20,417 | -34% |
| Air | 2,148 | 2,743 | -22% |
| Precision Products | 2,200 | 2,749 | -20% |
| | $ 17,955 | $ 25,909 | -31% |

Although fundamentals remain reasonably strong in the agriculture markets, with 2008 US net farm income growing by 3% relative to the previous record in 2007, revenues were down in the Ground Agriculture and Air product lines as uncertainty in global financial markets has caused farmers to reduce their spending on agricultural equipment. This has also impacted purchases by OEM and system integrator customers. Conditions in global financial markets had a similar impact on customers in the Precision Products line leading to a decline in revenues of 20% compared to the first quarter of 2008.

During the quarter, North American revenues were down by 35% and international revenues were down by 13%. Sales to European customers were very strong during the quarter representing an increase of 39% over 2008, whereas sales to Australian customers declined by 48% and sales to other international regions declined by 57%. The expansion of the Company's European distribution network and strong purchases from certain European OEM and systems integrator customers contributed to the increase in that region.

***Gross Margin***

First quarter gross margins of $9.4 million were down from $13.1 million for the same quarter of 2008 as a result of the reduction in revenues. On a percentage basis, gross margins were 52.4% compared to 50.5% in 2008. Cost reductions from the outsourcing of the manufacturing of an increasing number of component and finished goods products to a Chinese manufacturing partner has been a key driver in this margin improvement. In addition, the weakening of the Canadian dollar relative to the US dollar has had a positive impact on gross margins as a portion of cost of sales is denominated in Canadian dollars, whereas revenues are denominated almost entirely in US dollars. The Canadian dollar weakened by approximately 24% compared to the first quarter of 2008. Other contributors to gross margin improvement include initiatives focused on operational efficiencies and programs in design and procurement.

***Expenses***

Operating expenses were $7.8 million in the first quarter, a decrease of $0.3 million, or 4%, compared to the first quarter of 2008.

Management of Hemisphere GPS has increased its focus on operating cost management as a result of the uncertainties associated with the global financial markets. The Company announced that it will be closing its office in Euless, Texas before the end of the second quarter of 2009 in order to increase the efficiency of its operations. In addition, a number of other initiatives have been implemented to manage cost levels in light of the global economic circumstances contributing to the operating expense reduction relative to the first quarter of 2008.

Approximately 40% of the Company’s operating expenses are denominated in Canadian and Australian dollars. The average Canadian dollar foreign exchange rate for the first quarter weakened by about 24% relative the US dollar in the first quarter of 2008. Similarly, the Australian dollar foreign exchange rate weakened by about 36% during this same period. The estimated impact of these foreign exchange rate changes on US dollar translated operating expenses was a reduction of about $0.7 million.

Headcount increases associated with 2008 revenue growth of 35% have increased underlying operating expenses in the domestic currencies compared to the first quarter of 2008. The average headcount in the first quarter of 2009 was 261 employees compared to 245 employees in the prior year quarter, with substantially all of the additional positions in research and development and sales and marketing.

Research and development expenses increased by approximately 16% compared to 2008. The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets. During 2008 and in the first quarter of 2009, the Company has continued to build the strength of its research and development capabilities.

Sales and marketing expenses were down from the first quarter of 2008 by 2%. Lower sales commission expenses and changes in foreign exchange rates had a positive impact on sales and marketing expenses, offset by increased headcount associated with revenue growth during 2008.

General and administrative (“G&A”) expenses decreased by 20% or $0.4 million in the quarter. This reduction is a result of the favourable change in foreign exchange rates, costs incurred in the first quarter of 2008 related to the integration activities from the BEELINE Technologies acquisition, and from diligent cost management.

***Other***

In the first quarter of 2009, the Company recorded interest income of $9 thousand compared to interest income of $115 thousand in 2008. The Company earns interest income on its cash balance, however, interest rates have declined significantly in 2009 compared to 2008 and the balance of cash was lower in 2009.

The Company realized a foreign exchange gain of approximately $10 thousand during the first quarter of 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. Foreign currency risk management gains and losses are netted against the foreign exchange gain.

***Income Taxes***

No income tax expense was recorded in the quarter as net income is expected to be sheltered by income tax loss carryforwards available in each operating jurisdiction.

***Net Income***

Hemisphere GPS realized net income of $1.6 million, or $0.03 per share (basic and diluted) in the first quarter of 2009 compared to $5.8 million, or $0.11 per share (basic and diluted) in the first quarter of 2008.

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

***Revenue***

Revenue in the first quarter of 2009 of $18.0 million was up by 71% from revenue of $10.5 million in the fourth quarter of 2008. Growth was realized in each of the Ground Agriculture (81%), Air (143%) and Precision Products (5%) lines.

The increase from the fourth quarter is partly explained by the seasonality experienced by the Company. A large portion of the Company's revenues are generated from agricultural markets in the Northern Hemisphere. As a result, the Company's revenues are strongest during the heaviest buying season of such markets - which is the first half of the calendar year as farms prepare for the coming planting season.

***Gross Margin***

Gross margins of $9.4 million were up from $4.8 million in the fourth quarter of 2008 due to increased revenues. Percentage gross margins of 52% were up from 46% in the fourth quarter. This increase is a result of product mix, favourable foreign exchange rate changes, fourth quarter promotion costs, and growth-based annual dealer incentives incurred in the fourth quarter. Increased revenues also reduce the impact of fixed manufacturing costs on percentage gross margins.

***Expenses***

Expenses of $7.8 million for the three months ended March 31, 2009 increased by $0.5 million, or 7%, from the fourth quarter. Sales and marketing expenses increased primarily as a result of variable selling costs such as sales commissions, travel, advertising and other similar costs.

***Other***

Interest income of $9 thousand in the first quarter decreased from $109 thousand in the quarter ended December 31, 2008 as a result of a lower cash balance and lower interest rates.

The Company realized a foreign exchange gain of $10 thousand in the first quarter of 2009 versus a gain of $112 thousand in the fourth quarter of 2008 relating primarily to the translation of US dollar denominated working capital.

### *Income Taxes*

No income tax expense was recorded in the quarter as net income is expected to be sheltered by income tax loss carryforwards available in each operating jurisdiction.

### *Net Income (Loss)*

Hemisphere GPS realized net income of $1.6 million, or $0.03 per share (basic and diluted) in the first quarter of 2009 compared to a loss of $2.6 million, or $0.05 per share (basic and diluted) in the fourth quarter of 2008.

## Liquidity and Capital Resources

Hemisphere GPS held cash of $12.5 million at the end of the first quarter compared to a balance of $16.3 million at December 31, 2008. The primary items impacting the cash balance during the first quarter were:

- Cash generated from operations, prior to working capital changes, was $2.4 million compared to $6.9 million in the first quarter of 2008.
- Inventories increased by $3.9 million during the first quarter. Agriculture-related inventory was built in anticipation of strong sales during the first half of the year, which is the strongest agriculture buying season. Softer sales than anticipated during the first quarter resulted in the increase in inventory.
- Accounts receivable and payable both increased from the fourth quarter as a result of the increase in activity in the first quarter.
- At March 31, 2009, a foreign exchange contract is in place in connection with the Company's foreign exchange risk management program. The contract has a principal value of US$18.5 million, expires on June 30, 2009 and provides that the Company will sell $18.5 million US dollars and buy Cdn dollars at a forward rate of $1.0550.
- Total capital spending in the first quarter of 2009 was $0.4 million compared to $0.5 million in 2008. Capital costs in 2009 include production equipment, computer equipment and other assets.
- During the first quarter, no stock options were exercised.
- As of March 31, 2009, there were 55,561,676 common shares outstanding. During the quarter, 226,700 shares acquired in 2008 under the normal course issuer bid announced in September 2008 were cancelled. No shares were purchased under this program during the first quarter of 2009

Hemisphere GPS has an unused operating line of credit with its bank with a maximum borrowing limit of Cdn$7.0 million. The available borrowing limit under this operating line is determined based on trade receivables and inventory levels. The Company has entered into a general security agreement with its bank to secure such indebtedness.

## Critical Accounting Policies and Estimates

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

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

## Update on the Conversion to International Financial Reporting Standards

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

## Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting 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.

Management has identified certain weaknesses in internal controls over financial reporting which result in a more than remote likelihood that a material misstatement would not be prevented or detected. Management and the Board of Directors work to mitigate the risk of material misstatement, as described more fully below, however, there can be no assurance that the risk can be reduced to less than a remote likelihood of a material misstatement.

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

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

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

There were no changes in internal control over financial reporting that occurred during the Company's most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. For further discussion of internal controls over financial reporting, refer to the Company's Annual Report for the year ended December 31, 2008.

## Forward-Looking Information

The information in the Management's Discussion and Analysis ("MD&A") contains certain forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe", "would" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A and except as required by law, we undertake no obligation to publicly update or revise any forward-looking statements.

In particular, this MD&A contains forward-looking statements pertaining to the following:

- financial results;
- new and emerging markets;
- impact of market conditions;
- forecast net farm income;
- changes in foreign currency rates;
- losses available to reduce future taxable income;
- customer adoption of technology and products;
- processes implemented to mitigate weaknesses in internal controls;
- implementation of International Financial Reporting Standards;
- technological developments;
- expectations regarding the ability to raise capital; and
- research and capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- competition;
- departure of key personnel or consultants;
- inability to introduce new technology and new products in a timely manner;
- changes in the GPS network and other systems outside of our control;
- misappropriation of proprietary information;
- legal claims for the infringement of intellectual property and other claims;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- uncertainties in the global economy;
- negative conditions in general economic and financial markets;
- reliance on key suppliers;
- availability of key supplies and components;
- dependence on major customers;
- losses from credit exposures;
- product liability;
- damage or loss of use of physical facilities;
- stock market volatility and market valuations;
- conflicts of interest;
- changes in income tax laws and other government regulations; and
- the other factors discussed under "Business and Market Risks".

With respect to forward-looking statements contained in this document, we have made assumptions regarding, among other things: future technological developments; availability of key supplies, components, services, networks and developments; future exchange rates; the cost of expanding Hemisphere GPS's product lines; the impact of increasing competition; the nature and outcome of legal proceedings; the continuity of existing business relationships; conditions in general economic and financial markets; and our ability to obtain financing on acceptable terms.

Management has included the above summary of assumptions and risks related to forward-looking information provided in this MD&A in order to provide shareholders and readers with a more complete perspective on the Company's current and future operations and such information may not be appropriate for other purposes. Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Consolidated Financial Statements of

Hemisphere GPS

Three months ended March 31, 2009 and 2008

(expressed in U.S. dollars)

# HEMISPHERE GPS INC.

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents (note 2) | $ 12,512,069 | $ 16,288,684 |
| Accounts receivable | 9,886,702 | 7,409,108 |
| Inventories | 17,929,936 | 14,016,645 |
| Deferred commissions | 204,248 | 215,402 |
| Prepaid expenses and deposits | 672,193 | 679,863 |
| | 41,205,148 | 38,609,702 |
| Deferred commissions | 141,458 | 171,852 |
| Property and equipment | 6,660,966 | 6,871,801 |
| Intangible assets | 6,571,960 | 7,029,627 |
| Goodwill | 33,984,151 | 34,972,095 |
| | $ 88,563,683 | $ 87,655,077 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 8,281,746 | $ 6,634,059 |
| Foreign exchange contract (note 5) | 2,985,954 | 3,270,210 |
| Deferred revenue | 1,353,071 | 1,484,166 |
| | 12,620,771 | 11,388,435 |
| Deferred revenue | 1,046,490 | 1,035,220 |
| Shareholders' equity: | | |
| Share capital (note 3) | 107,711,503 | 108,162,136 |
| Share capital purchased for cancellation under Normal Course Issuer Bid (note 3(d)) | – | (450,633) |
| Contributed surplus | 3,350,909 | 3,134,045 |
| Deficit | (32,636,954) | (34,232,193) |
| Accumulated other comprehensive income | (3,529,036) | (1,381,933) |
| | 74,896,422 | 75,231,422 |
| | $ 88,563,683 | $ 87,655,077 |

See accompanying notes to consolidated financial statements.

Approved by the Board:

Paul Cataford, Director

Paul Camwell, Director

# HEMISPHERE GPS INC.

Consolidated Statements of Operations and Deficit
Three months ended March 31, 2009 and 2008
(unaudited - expressed in U.S. dollars)

| | 2009 | 2008 |
|---|---|---|
| Sales | $ 17,955,052 | $ 25,908,764 |
| Cost of sales | 8,548,013 | 12,834,517 |
| | 9,407,039 | 13,074,247 |
| Expenses: | | |
| Research and development | 2,101,362 | 1,804,391 |
| Sales and marketing | 3,224,684 | 3,298,067 |
| General and administrative | 1,575,204 | 1,965,506 |
| Stock-based compensation (note 3(c)) | 216,868 | 127,880 |
| Amortization | 713,480 | 927,765 |
| | 7,831,598 | 8,123,609 |
| Earnings before undernoted items | 1,575,441 | 4,950,638 |
| Foreign exchange gain | (10,463) | (594,359) |
| Interest income | (9,335) | (115,172) |
| Other income | – | (263,036) |
| Earnings before income taxes | 1,595,239 | 5,923,205 |
| Current income taxes | – | 113,768 |
| Net earnings | 1,595,239 | 5,809,437 |
| Deficit, beginning of period | (34,232,193) | (40,469,714) |
| Adjustment due to adoption of new accounting policy | – | 150,135 |
| Deficit, end of period | $ (32,636,954) | $(34,510,142) |
| Earnings per common share: | | |
| Basic | $ 0.03 | $ 0.11 |
| Diluted | 0.03 | 0.11 |
| Weighted average shares outstanding: | | |
| Basic | 55,561,676 | 50,786,540 |
| Diluted | 55,561,676 | 51,533,451 |

See accompanying notes to consolidated financial statements.

# HEMISPHERE GPS INC.

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income
Three months ended March 31, 2009 and 2008
(unaudited - expressed in U.S. dollars)

| | 2009 | 2008 |
|---|---|---|
| Net earnings | $ 1,595,239 | $ 5,809,437 |
| Other Comprehensive Income (net of tax): | | |
| Translation of assets and liabilities into U.S. dollar reporting currency | (2,147,103) | (3,537,810) |
| Comprehensive Income (loss) | $ (551,864) | $ 2,271,627 |
| Accumulated Other Comprehensive Income (loss), opening balance | $ (1,381,933) | $17,225,660 |
| Translation of assets and liabilities into U.S. dollar reporting currency | (2,147,103) | (3,537,810) |
| Accumulated Other Comprehensive Income (loss), closing balance | $ (3,529,036) | $13,687,850 |

See accompanying notes to consolidated financial statements.

# HEMISPHERE GPS INC.

Consolidated Statements of Cash Flows
Three months ended March 31, 2009 and 2008
(unaudited - expressed in U.S. dollars)

| | 2009 | 2008 |
|---|---|---|
| Cash flows from (used in) operating activities: | | |
| Earnings from continuing operations | $ 1,595,239 | $ 5,809,437 |
| Items not involving cash: | | |
| Amortization | 713,480 | 927,765 |
| Stock-based compensation | 216,868 | 127,880 |
| Unrealized foreign exchange gain | (130,339) | – |
| Cash from continuing operations | 2,395,248 | 6,865,082 |
| Change in non-cash operating working capital: | | |
| Accounts receivable | (2,719,701) | (4,027,116) |
| Inventories | (4,361,864) | (114,455) |
| Prepaid expenses and deposits | (11,677) | 116,198 |
| Accounts payable and accrued liabilities | 1,857,500 | 2,016,258 |
| Notes payable | – | (311,217) |
| Deferred revenue | (49,248) | 303,492 |
| Deferred commissions | 30,982 | (43,327) |
| | (2,858,760) | 4,804,915 |
| Cash flows from (used in) financing activities: | | |
| Capital leases | – | (50,241) |
| Issue of share capital | – | 334,454 |
| Share issue cost | – | (69,716) |
| | – | 214,497 |
| Cash flows used in investing activities: | | |
| Purchase of property and equipment | (434,318) | (471,469) |
| Increase (decrease) in cash position | (3,293,078) | 4,547,943 |
| Effect of currency translation on cash balances and cash flows | (483,537) | (626,458) |
| Cash and cash equivalents, beginning of period | 16,288,684 | 13,455,779 |
| Cash and cash equivalents, end of period | $12,512,069 | $17,377,264 |
| Cash and cash equivalents consist of: | | |
| Cash | $ 7,512,069 | $ 17,377,264 |
| Term deposits | $ 5,000,000 | $ – |
| Supplemental disclosure: | | |
| Interest paid | $ 4,052 | $ 7,189 |
| Income taxes paid | $ 212,000 | $ – |

See accompanying notes to consolidated financial statements.

(unaudited - expressed in U.S. dollars)

## 1. Basis of presentation:

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

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

## 2. Cash and cash equivalents:

Cash and cash equivalents consists of cash on hand and a $5,000,000 term deposit with a Canadian chartered bank with original maturity of less than thirty days. The term deposit is assigned to the bank as a security for the outstanding foreign exchange contract.

## 3. Share capital:

(a) Authorized:

Unlimited common shares

Unlimited first preferred shares, issuable in series

Unlimited second preferred shares, issuable in series

(b) Issued:

Issued share capital consists only of common shares, as follows;

| | Number of Shares | Amount |
|---|---|---|
| Balance, December 31, 2008 | 55,788,376 | $108,162,136 |
| Purchased and cancelled under Normal Course Issuer Bid | (226,700) | (450,633) |
| Balance, March 31, 2009 | 55,561,676 | $107,711,503 |

(unaudited - expressed in U.S. dollars)

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

(c) Stock-based compensation:

At March 31, 2009 there were 4,253,847 (2008– 2,588,612) stock options outstanding. During the first quarter of 2009 the Company granted nil stock options (2008 – nil). For the three months ended March 31, 2009, the Company recorded $216,868 (2008 – $127,880) as compensation expense.

(d) 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. The Company purchased 945,200 common shares for cancellation under this program of which 718,500 of these shares were cancelled in the prior period and the remaining 226,700 shares were cancelled during the current period.

**4. Segmented information:**

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

All 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.

| March 31, 2009 | Ground Ag | Air | Precision | Shared | Total |
|---|---|---|---|---|---|
| Sales | $ 13, 607,000 | $ 2,148,000 | $ 2,200,000 | $ – | $ 17,955,000 |
| Contribution (loss) | $ 3,005,000 | $ 160,000 | $ 749,000 | $ (2,319,000) | $ 1,595,000 |

| March 31, 2008 | Ground Ag | Air | Precision | Shared | Total |
|---|---|---|---|---|---|
| Sales | $ 20, 417,000 | $ 2,743,000 | $ 2,749,000 | $ – | $ 25,909,000 |
| Contribution (loss) | $ 7,318,000 | $ 831,000 | $ 847,000 | $ (3,187,000) | $ 5,809,000 |

(unaudited - expressed in U.S. dollars)

**4. Segmented information (continued):**

Assets and sales by geographic segment:

| | Assets | | Sales | |
|---|---|---|---|---|
| | | | Three months ended | |
| | March 31, 2009 | December 31, 2008 | March 31, 2009 | March 31, 2008 |
| United States | $ 52,731,000 | $ 49,092,000 | $ 10,513,000 | $ 15,730,000 |
| Canada | 18,855,000 | 21,376,000 | 2,995,000 | 5,053,000 |
| Europe | – | – | 3,089,000 | 2,216,000 |
| Australia | 16,978,000 | 17,187,000 | 596,000 | 1,143,000 |
| Other | – | – | 762,000 | 1,767,000 |
| | $ 88,564,000 | $ 87,655,000 | $ 17,955,000 | $ 25,909,000 |

**5. Foreign exchange contract:**

As of March 31, 2009, the Company had a foreign exchange contract expiring on June 30, 2009 to sell $18.5 million US dollars and buy Cdn dollars at a forward rate of $1.0550. This contract is recorded at fair value with the change in fair value recognized through earnings and included in "Foreign exchange gain" in the Consolidated Statement of Operations and Deficit.

**6. Seasonality of operations:**

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