



## Q2 Interim Report

June 30, 2010

**Hemisphere**  
GPS

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## Message to Shareholders

For the second quarter ended June 30, 2010, Hemisphere GPS reported an 8% increase in revenues to \$15.6 million compared to the second quarter of 2009 and a 3% increase from the first quarter of 2010. Due primarily to negative foreign exchange volatility, Hemisphere GPS reported an increased loss of \$1.9 million, or \$(0.03) per share (basic and diluted), in the second quarter of 2010, compared to a loss of \$1.3 million, or \$(0.02) per share (basic and diluted), in the second quarter of 2009.

In our Agriculture business, sales of ground agriculture products grew by 10% from the second quarter of 2009. Ground agriculture product sales to international distribution customers, OEMs and systems integrator customers were strong during the quarter. North American revenues were down by 10% as a result of the impact of weaker grain prices on purchasing decisions and from lower sales in Canada where record levels of rain have hindered planting efforts. International revenues were very strong in the second quarter with growth of 55% compared to the second quarter of 2009. Sales to customers in Europe and Australia increased by 24% and 58%, respectively, following declines in these markets in the first quarter. The introduction of the North American Outback Guidance distribution model into the Australian market has contributed to growing Australian sales. Sales to other markets, including South America and China, were up by over 100% compared to the second quarter of 2009, continuing the strong growth seen in the first quarter. Revenues from the Precision Products segment grew by 5% versus the second quarter of 2009 with continued strength in sales of Vector heading sensor products and GPS boards sold to OEM customers.

The first half of 2010 was characterized by strong international sales, while North America continues to lag somewhat. Other factors including planting season irregularities and record wet conditions in the Canadian and US Midwest seemed to contribute to end-customer purchasing below our expectations. While we saw very weak grain commodity prices in the first half of the year, prices have significantly strengthened in July. For example, wheat prices went from a 52-week low in June to a 52-week high in July.

Weakness in agricultural commodity prices for grains during the quarter also impacted overall confidence in the farming sector. In general we tend to experience a direct correlation between optimism levels within the farming community and our sales levels. And since we generate the majority of our sales directly from the end user, we tend to experience real-time fluctuations with the market optimism or pessimism.

In its February 2010 Farm Sector Income Forecast, the US Department of Agriculture (“USDA”) projects that net farm income – which includes both crop and livestock farms – will be \$63 billion in 2010, up by 12% from 2009 and the fifth highest year ever. During the first half of 2010 record wet weather will result in over 20% less production acres in Western Canada, and will negatively impact grain production in 2010. As a result July 2010 has seen a significant increase in grain prices as noted above.

As we have stated previously, we anticipate a stronger than usual closing six months to our year based on improved optimism from commodity prices, new product releases, significant order backlog strength, new strategic customer opportunities, improving monthly performance relative to 2009 and continued strength in South America, Australia, and Asia.

In addition to an improved outlook for the overall agriculture markets for the remainder of 2010, several of our new products are shipping in the third and fourth quarters and initial demand indicates additional incremental revenue opportunities for the year.

During the second quarter we began full commercial shipments of our Outback eDriveX™ auto-steering system, which delivers a new level of precision steering and control performance opening up new market segments for the Company's products. eDriveX steers more demanding farming practices including high-precision planting, strip tilling and bedding, requiring centimeter-level accuracy at a wide range of speeds. End-user feedback on eDriveX has been very positive.

Shipments of Outback eDriveX auto-steering system have been good. End-user feedback on eDriveX has been very positive. In the quarter we expanded our offering installation kits to address a wider set of tractors and combines.

Auto-steering is the number one revenue generator for our business. We expect this to continue as adoption rates for auto-steering still lag guidance installation numbers, making all of our auto-steering products well-positioned to up-sell to new and existing customers. A recent study by Successful Farming and Agriculture.com suggests that 20% of those farmers surveyed plan to purchase autosteering technology before the end of the year. If true, this could represent a significant resurgence of buying that the precision ag industry hasn't seen since the peak of 2008. In this same survey, 25% of farmers cited cost as their biggest concern when it comes to investing more in precision ag technology, which bodes well for our value approach to market through our Outback brand.

The pull-through effect from auto-steering for other parts of our portfolio is also very positive, including other new products such as dual frequency receivers, guidance systems, and integrated section controls.

We also launched new software that allows users to configure and operate Outback AutoMate from the Outback S3 user interface. Users can now configure AutoMate features, operate AutoMate, and view spray or planting data on the moving map -- all from the S3 touch screen interface. Outback AutoMate is an automatic section control product that works directly with all Outback Guidance products and delivers one of the industry's quickest returns on investment. The software update is targeted at enhancing customer's experience with the Outback S3 and Outback AutoMate systems.

Our new Earthworks business unit that designs and manufactures products for the construction market progressed towards increased traction in back half of this year. Our Earthworks product line is focused on machine guidance and control of earth-moving machinery inclusive of snow cats for ski resorts.

In this interesting new market application, subsequent to the end of the second quarter, Sunshine Village, a ski resort located in Banff, Alta. began outfitting its entire snowcat fleet with Hemisphere GPS's new snow grooming guidance systems. Sunshine Village operators can use the guidance systems to record boundaries and set flags on the screen to map tree lines, out-of-bounds limits, winch holds, hazards or other areas of interest. They can mark thin snowpack to address it on the next pass or navigate back to the location at a different time. With Hemisphere's snow grooming guidance systems, maintenance managers are able to review job files for operator and machine performance and concerns. It is easy to plot speed, position, area covered and time.

While Earthworks is still in a preliminary stage of channel development and revenue generation, we can develop our Earthworks product line by leveraging the expertise and experience from our proven technology applications currently used in agriculture applications and marine markets to meet the needs of the Earthworks sector. This is a high value niche market for us.

In addition to our recently launched Earthworks X200 Excavator machine guidance system, new offerings to be announced later this quarter in Earthworks will include the X300 three dimensional excavator guidance system, blade application, as well as new Earthworks partnerships and channel developments. We believe there is a very significant market opportunity for Earthworks and that it will become a large part of our future growth capability, and with very incremental R&D investment.

In terms of the health of the precision agriculture industry, we see elements of a positive cycle, even super cycle, in gradual development.

Our objectives for the back half of the year are to maximize the revenue opportunity and capture the emerging upside Agriculture cycle. Our Outback business model being tied to real market order flow sets up well for Hemisphere GPS to see this market upside first. We also plan to continue with cost management programs to mitigate the impacts of FX we've experienced in the first half of the year. Finally, our efforts are also focused on increasing our long term commercialization success with OEM's, new strategic customers and partners, and new market niches. Evidence of this commercialization success will be made throughout the remainder of the year.

While we are disappointed with the revenue growth and impacts from FX during the first half of 2010, we are more enthusiastic than ever about the fundamentals of our business being more robust now compared to the past 18 months, and the trajectory we can move to for the rest of 2010 and into 2011.

We thank you for your support of Hemisphere GPS and look forward to reporting to you on our progress following the close of the third quarter of 2010.

A handwritten signature in black ink, appearing to read "S. Koles", written over a light gray rectangular background.

Steven Koles  
President & CEO

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Interim Management Discussion and Analysis



Three and six month period ended June 30, 2010

The following discussion and analysis is effective as of August 10, 2010 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 June 30, 2010 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](http://www.sedar.com) and which is supplemental to the unaudited interim consolidated financial statements and notes for the three and six month periods ended June 30, 2010.

## **Overview**

Hemisphere GPS designs, manufactures and sells innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. Hemisphere GPS carries out its activities through two business units: Agriculture (ground and air agriculture markets) and Precision Products (non-agriculture markets including marine and geographic information systems). The primary vertical market for the Company's products is agriculture representing over 80% of its revenues. Approximately 65% of 2010 year-to-date revenues were from customers in North America.

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

## **Economic and Market Trends**

### *Financial and Agriculture Markets*

While there remains uncertainty and volatility in the financial markets, following the recent global financial crisis and weak economic conditions it is anticipated by many that a subdued recovery will strengthen throughout 2010.

In its February 2010 *Farm Sector Income Forecast*, the US Department of Agriculture ("USDA") projects that *net farm income* – which includes both crop and livestock farms – will be \$63 billion in 2010, up by 12% from 2009 and the fifth highest year ever. However, wet weather has resulted in lower seeded acres in Canada and the central US and is expected to negatively impact grain production in 2010.

Grain prices in 2009 and 2010 have declined from 2008 highs and remained soft during the first and second quarters. July 2010 has seen a significant increase in grain prices. Looking longer term, grain prices 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.

Although high levels of income were generated by farmers in both 2008 and 2009 recessionary conditions, lower grain prices and wet weather in many regions of North America are believed to have resulted in lower spending by agricultural customers in 2009 and during the first half of 2010. Company revenues grew by 8% in the second quarter, but have declined by 6% year-to-date. While there are indications that the markets are recovering, it remains uncertain how these factors will impact farmer sentiment and agriculture equipment purchases through the remainder of 2010.



Company Management continues to view the fundamentals of the global agriculture markets to be positive for the mid to longer term driven by the following key factors: population growth, limited arable land, the need for increased output, and a relatively low global penetration of precision agriculture technologies such as GPS and auto-steering.

#### *Currency Markets*

The Company's financial results are impacted by foreign currency volatility – particularly the Canadian/US dollar exchange rate. After a US dollar weakening by 32% from an average of Cdn\$1.57 in 2002 to Cdn\$1.07 in 2007, the US dollar stabilized and began to strengthen again in 2008. Volatility diminished in the first quarter of 2009, with an average rate of Cdn\$1.25, however then weakened through the remainder of 2009 – averaging Cdn\$1.14 for 2009. The average foreign exchange rate in the second quarter of 2010 was Cdn\$1.0276, down by 12% from the average second quarter 2009 rate of Cdn\$1.1671.

The Company sells products in US dollars. A portion of the Company's expenses are incurred in Canadian and Australian dollars and therefore increase, reducing earnings, when the US dollar weakens. In addition to the direct impact on the Company's expenses, changes in foreign currency rates further impact the Company's working capital as it is held in both Canadian and in US dollars. As the Company's measurement currency is the Canadian dollar, fluctuations in the Canada/US foreign exchange rate results in foreign exchange gains or losses arising from the translation of US dollar working capital into Canadian dollars. Prior to foreign exchange risk management transactions, a weakening US dollar gives rise to foreign exchange translation losses and a stronger US dollar gives rise to foreign exchange translation gains – both dependent on the size of the US dollar denominated working capital. In the second quarter, US dollar working capital was estimated to be approximately US\$11 million.

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

	Quarter Ended							
	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010
Quarterly average	\$ 1.0418	\$ 1.2125	\$ 1.2453	\$ 1.1671	\$ 1.0974	\$ 1.0563	\$ 1.0409	\$ 1.0276
Quarter end	\$ 1.0599	\$ 1.2246	\$ 1.2602	\$ 1.1625	\$ 1.0722	\$ 1.0466	\$ 1.0156	\$ 1.0606



## Results of Operations

### Summary of Quarterly Results

(000's)	For the Quarter Ended							
	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010
Sales	\$ 13,201	\$10,518	\$17,955	\$ 14,465	\$ 9,069	\$12,149	\$15,068	\$15,557
Gross margin	6,815 52%	4,826 46%	9,407 52%	7,283 50%	3,901 43%	5,267 43%	6,808 45%	6,655 43%
Expenses:								
Research and development	1,943	2,324	2,101	1,996	2,345	2,410	2,384	2,531
Sales and marketing	2,729	2,683	3,225	2,832	2,514	2,474	3,271	3,100
General and administrative	1,657	1,399	1,575	1,769	1,684	1,608	1,726	1,836
Stock-based compensation	190	161	217	206	219	78	168	196
Amortization	861	728	713	763	831	839	866	821
	7,380	7,295	7,831	7,566	7,593	7,409	8,415	8,484
Earnings (loss) before undernoted items	(564)	(2,469)	1,576	(283)	(3,692)	(2,142)	(1,607)	(1,829)
Foreign exchange (gain) loss	(242)	(112)	(10)	173	76	(1)	114	(142)
Interest income	(89)	(109)	(9)	(7)	(2)	(2)	(2)	(4)
Legal fees on settlement of lawsuit	–	151	–	–	–	–	–	–
Restructuring costs	–	251	–	812	–	64	–	208
Earnings (loss) before income tax	(233)	(2,650)	1,595	(1,261)	(3,766)	(2,203)	(1,719)	(1,891)
Income tax	–	–	–	–	–	254	–	–
Net Earnings (loss)	(233)	(2,650)	1,595	(1,261)	(3,766)	(2,457)	(1,719)	(1,891)
Net earnings (loss) per common share *:								
Basic and diluted	\$ 0.06	\$ (0.00)	\$ (0.05)	\$ 0.03	\$ (0.02)	\$ (0.07)	\$ (0.04)	\$ (0.03)

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



Sales by segment on a quarterly basis are as follows:

(000's)	For the Quarter Ended							
	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009	Dec 31 2009	Mar 31 2010	Jun 30 2010
Agriculture	\$ 10,146	\$ 8,417	\$ 15,755	\$ 11,794	\$ 6,385	\$ 9,567	\$ 12,481	\$ 12,740
Precision Products	3,055	2,100	2,200	2,671	2,684	2,582	2,587	2,817
	\$ 13,201	\$ 10,517	\$ 17,955	\$ 14,465	\$ 9,069	\$ 12,149	\$ 15,068	\$ 15,557

### Quarter Ended June 30, 2010 versus Quarter Ended June 30, 2009

#### Revenue

For the three months ended June 30, 2010, revenue was \$15.6 million, up 8% from revenues of \$14.5 million for the same period of 2009. Revenues from the Company's operating segments were as follows in the second quarter of 2010 and 2009:

(000's)	Q2 2010	Q2 2009	Change
Agriculture	\$ 12,740	\$ 11,794	+8%
Precision Products	2,817	2,671	+5%
	\$ 15,557	\$ 14,465	+8%

In the Agriculture segment, sales of ground agriculture products grew by 10% from the second quarter of 2009 while revenues for air-based agriculture products were down by 7%. Ground agriculture product sales to international distribution customers, OEMs and systems integrator customers were strong during the quarter.

Revenues from the Precision Products segment grew by 5% versus the second quarter of 2009 with continued strength in sales of Vector heading sensor products and GPS boards sold to OEM customers.

During the quarter, total North American revenues were down by 10% as a result of the impact on purchasing of weaker grain prices and from lower sales in Canada where high levels of rain have hindered planting efforts across Western Canada. International revenues were very strong in the second quarter with growth of 55% compared to the second quarter of 2009. Sales to customers in Europe and Australia increased by 24% and 58%, respectively, following declines in these markets in the first quarter. The introduction of the US Outback Guidance distribution model into the Australian market has contributed to growing Australian sales. Sales to other markets, including South America and China, were up by over 100% compared to the second quarter of 2009 continuing the strong growth seen in the first quarter.

#### Gross Margin

Second quarter gross margins of \$6.6 million were down from \$7.3 million for the same quarter of 2009. On a percentage basis, gross margins were 42.8% compared to 50.3% in 2009. Margins were down year

over year primarily as a result of the impact of the significant weakening of the US dollar over last year, product mix and program-related pricing discounts.

As in the prior three quarters, the weakening of the US dollar had a significant impact on gross margins for the quarter. Consistent with our reporting in prior quarters, a large portion of the US dollar inventory held by the Company heading into the second quarter was acquired during the first and second quarter of 2009 when the US dollar was substantially stronger than it has been since. As the Company has a Canadian dollar measurement currency, US dollar revenues earned in the second quarter are recorded in Canadian dollars using the Q2 average foreign exchange rate – which was \$1.03. However, when US dollar 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 2009 first half average rate was about \$1.21. The Company estimates that this issue had a negative impact on gross margins for the quarter of approximately 5.5% - in part because the second quarter of 2009 realized an opposite impact from FX rates. This issue has had a less pronounced impact in years prior to 2009 as significant foreign exchange rate moves have not been combined with the slower inventory movement. At June 30, 2010 most of the impact from this issue has flowed through cost of sales and the impact over the last half of 2010 should be less than 1% assuming that the Canadian dollar does not significantly strengthen from current levels.

### ***Expenses***

Operating expenses were \$8.5 million in the second quarter, an increase of \$0.9 million, or 12%, compared to the second quarter of 2009.

Approximately 45% of the Company's operating expenses are denominated in Canadian and Australian dollars. The average US dollar foreign exchange rate for the second quarter weakened by about 12% compared to the Canadian dollar relative to the second quarter of 2009 and by 20% against the Australian dollar. These changes have a negative impact on reported operating expenses as the Canadian and Australian dollar expenses are converted and reported in US dollars at a stronger rate. The estimated impact of these foreign exchange rate changes on US dollar translated operating expenses was an increase of about \$0.6 million.

Total headcount at June 30, 2010 was 225 employees, down by 7% from 241 at June 30, 2009 with a reduction of 5 employees in the manufacturing department and 11 employees in other functions. The impact of these reductions on operating expenses has been substantially offset by the impact of the weakening US dollar on translated expenses.

Research and development expenses increased by \$0.5 million or approximately 27% compared to 2009. The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets. The increase in expenses compared to 2009 is a result of higher material costs associated with development projects and from the translation of Canadian and Australian based expenses at stronger foreign exchange rates as compared to the US dollar.

Sales and marketing expenses increased from the second quarter of 2009 by 9%. Higher sales drove increased variable sales and marketing costs including advertising, promotions and travel costs.

General and administrative ("G&A") expenses increased by 4% compared to the second quarter of 2009. Reductions in G&A expenses associated with headcount reductions and cost controls was more than offset by the impact of the change in foreign exchange rates.

### ***Other***

In the second quarter of 2010, the Company recorded net interest income of \$4 thousand compared to interest income of \$7 thousand in 2009. Restructuring costs of \$0.2 million were incurred compared to \$0.8 million in 2009 associated with internal restructuring activities.

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 gain from foreign exchange of \$0.7 million in the second quarter. A loss from foreign currency risk management transactions of \$0.6 million is netted against this gain to arrive at the reported gain of \$0.1 million.

### ***Loss***

Hemisphere GPS realized a loss of \$1.9 million, or (\$0.03) per share (basic and diluted) in the second quarter of 2010 compared to a loss of \$1.3 million, or (\$0.02) per share (basic and diluted) in the second quarter of 2009.

## **Quarter Ended June 30, 2010 versus Quarter Ended March 31, 2010**

### ***Revenue***

Revenue in the second quarter of 2010 of \$15.6 million was up by 3% from revenue of \$15.1 million in the first quarter. Growth of 2% was realized in Agriculture while Precision Products revenue grew by 9% compared to the first quarter.

Typically, the first quarter is the strongest revenue quarter for the Company followed by the second quarter – both driven by the buying patterns of the agricultural markets in the Northern hemisphere. This trend was offset in 2010 by the varying levels at which regional economies are recovering from the recessionary conditions of 2009. Stronger growth is being realized in international markets compared to North America. In addition, North American agriculture markets were also impacted in the first half by wet weather conditions.

### ***Gross Margin***

Gross margins of \$6.6 million were down slightly from \$6.8 million in the first quarter. Percentage gross margins of 42.8% were down from 45.2% in the first quarter. The impact of product mix, pricing discounts and higher manufacturing overhead in the quarter contributed to this decline.

### ***Expenses***

Expenses of \$8.5 million for the three months ended June 30, 2010 increased by \$0.1 million from the first quarter. Higher materials cost on development projects and higher general and administrative costs related to annual regulatory compliance requirements were the primary areas of increase.



### **Other**

Net interest income of \$4 thousand in the second quarter was up from \$2 thousand in the first quarter.

The Company realized a foreign exchange gain of \$142 thousand in the first quarter of 2010 versus a loss of \$114 thousand in the first quarter relating primarily to the translation of US dollar denominated working capital.

### **Loss**

Hemisphere GPS realized a loss of \$1.9 million, or (\$0.03) per share (basic and diluted) in the second quarter of 2010 compared to a loss of \$1.7 million, or (\$0.03) per share (basic and diluted) in the first quarter.

### **Six Months Ended June 30, 2010 versus Six Months Ended June 30, 2009**

#### **Revenue**

<b>Sales by Operating Segment</b> (000's)	<b>Six months ended</b>		
	<b>Jun 2010</b>	<b>Jun 2009</b>	<b>Change</b>
Agriculture	\$ 25,222	\$ 27,549	-8%
Precision Products	5,404	4,871	+11%
	<b>\$ 30,626</b>	<b>\$ 32,420</b>	<b>-6%</b>

Revenue in the six months ended June 30, 2010 of \$30.6 million decreased by 6% from revenue of \$32.4 million in the corresponding period of 2009. While second quarter revenue growth in both the Agriculture and Precision Products segment gives some indication that the markets are recovering this growth was not enough to offset the decline in the first quarter.

International revenues have seen a recovery from 2009 levels growing by 26% in 2010 compared to 2009. However, North American revenues have declined by 16% from 2009 reflecting cautionary agriculture purchasing as a result of the wet planting season and lower 2010 grain prices.

#### **Gross Margin**

Gross margins of \$13.5 million (44%) were down from \$16.7 million (51%) in the first half of 2009 as a result of lower revenues, the impact of foreign exchange rates, product mix and program-related pricing discounts.

#### **Expenses**

Operating expenses of \$16.9 million for the six months ended June 30, 2010 have increased by \$1.5 million from the first half of 2009. Although average headcount over the first half of 2010 was lower than in 2009, the impact of stronger Canadian and Australian dollar exchange rates versus the US dollar has more than offset the savings. This issue has resulted in an increase in operating expenses of \$1.2 million. In addition, material expenses related to product development projects has increased in 2010.

### ***Other***

In the first six months of 2010, the Company realized a foreign exchange gain of \$28 thousand compared to a loss of \$163 thousand in 2009. This gain is net of a year-to-date foreign exchange risk management loss of \$330 thousand.

Interest income (net of interest expense) of \$6 thousand was earned during the first half of 2010 – versus \$17 thousand in 2009. Restructuring costs of \$0.2 million were incurred in 2010 – compared to \$0.8 million in 2009.

### ***Income Taxes***

There was no income tax expense reported in the first six months of 2010 or 2009.

### ***Loss***

The Company realized a loss in the first half of 2010 of \$3.6 million, or (\$0.06) per share (basic and diluted), compared to net earnings of \$0.3 million, or \$0.01 per share (basic and diluted) in the first half of 2009.

### **Liquidity and Capital Resources**

Hemisphere GPS held cash and cash equivalents of \$7.9 million at the end of the second quarter down from \$9.1 million at March 31, 2010. The primary items impacting the cash balance during the second quarter were:

- Cash used in operations, prior to non-cash operating working capital changes, was \$1.1 million compared to cash generated from operations of \$0.3 million in the second quarter of 2009. After considering non-cash operating working capital changes, \$0.9 million of cash was used in operations in the second quarter of 2010 compared to \$3.2 million used in the second quarter of 2009.
- Inventory was drawn down by \$1.2 million during the second quarter.
- Total capital spending in the second quarter of 2010 was \$0.2 million compared to \$0.8 million in 2009. Capital costs in 2010 include computer equipment, production equipment, and leasehold improvements.
- During the second quarter, no stock options were exercised.

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.

Inventories consist of components, work in process and finished goods related to the products manufactured and sold by the Company. Inventory levels were high in early 2009 as recessionary conditions resulted in revenues lower than forecasted. Since that time, the Company has drawn down inventory, 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
Mar 31, 2010	Cdn\$17.7 million	\$1.0156	US\$17.4 million
Jun 30, 2010	Cdn\$16.4 million	\$1.0606	US\$15.5 million

### 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.

### Update on the Conversion to 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. Management also acquired a Canadian-based third party software system that supports a more detailed evaluation of the Company's accounting policies.

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 and has begun to prepare a set of financial statements that reflect those elections and policies. Additional review and approvals by Senior Management and the Company's Audit Committee are required. Related to certain of the preliminary decisions, Management is evaluating specific internal process changes that may be required to support accounting policy and disclosure provisions under IFRS.

## **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.

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, 2009.

## **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 risks and assumptions 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.

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# Consolidated Financial Statements of



Three and six months ended June 30, 2010 and 2009

(unaudited - expressed in U.S. dollars)

# HEMISPHERE GPS INC.

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

	June 30, 2010	December 31, 2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 2)	\$ 7,885,902	\$ 8,397,418
Accounts receivable	8,116,001	5,986,781
Inventories	15,485,767	17,751,949
Deferred commissions	148,395	187,436
Prepaid expenses and deposits	442,516	628,023
	<u>32,078,581</u>	<u>32,951,607</u>
Deferred commissions	103,234	158,171
Property and equipment	7,453,882	7,905,708
Intangible assets	6,361,081	7,386,776
Goodwill	40,379,810	40,919,957
	<u>\$ 86,376,588</u>	<u>\$ 89,322,219</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 5,862,388	\$ 4,030,075
Deferred revenue	989,865	1,242,573
Current portion of capital lease	92,097	89,637
	<u>6,944,350</u>	<u>5,362,285</u>
Deferred revenue	686,509	819,888
Capital lease	208,038	258,426
Shareholders' equity:		
Share capital (note 3)	107,708,468	107,708,468
Contributed surplus	4,217,551	3,853,826
Deficit	(43,731,119)	(40,121,337)
Accumulated other comprehensive income	10,342,791	11,440,663
	<u>78,537,691</u>	<u>82,881,620</u>
	<u>\$ 86,376,588</u>	<u>\$ 89,322,219</u>

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  
(unaudited – expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Sales	\$ 15,557,105	\$ 14,465,261	\$ 30,625,508	\$ 32,420,313
Cost of sales	8,901,535	7,182,484	17,161,514	15,730,497
	6,655,570	7,282,777	13,463,994	16,689,816
Expenses:				
Research and development	2,531,431	1,995,546	4,915,407	4,096,908
Sales and marketing	3,100,466	2,832,314	6,371,912	6,056,998
General and administrative	1,836,101	1,768,856	3,561,790	3,344,061
Stock-based compensation (note 3(c))	195,601	205,638	363,725	422,506
Amortization	820,866	762,970	1,687,540	1,476,450
	8,484,465	7,565,324	16,900,374	15,396,923
Earnings (loss) before undernoted items	(1,828,895)	(282,547)	(3,436,380)	1,292,893
Foreign exchange loss (gain)	(142,024)	173,254	(28,518)	162,790
Interest income	(3,714)	(7,345)	(6,065)	(16,680)
Restructuring costs (note 5)	207,985	812,186	207,985	812,186
Net earnings (loss)	(1,891,142)	(1,260,642)	(3,609,782)	334,597
Deficit, beginning of period	(41,839,977)	(32,636,954)	(40,121,337)	(34,232,193)
Deficit, end of period	\$(43,731,119)	\$(33,897,596)	\$(43,731,119)	\$(33,897,596)
Earnings per common share from continuing operations:				
Basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.06)	\$ 0.01
Earnings per common share:				
Basic and diluted	\$ (0.03)	\$ (0.02)	\$ (0.06)	\$ 0.01
Weighted average shares outstanding:				
Basic	55,561,667	55,561,667	55,561,667	55,561,667
Diluted	55,561,667	55,561,667	55,561,667	55,561,667

See accompanying notes to consolidated financial statements.



## HEMISPHERE GPS INC.

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

(unaudited - expressed in U.S. dollars)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net earnings (loss)	\$ (1,891,142)	\$(1,260,642)	\$ (3,609,782)	\$ 334,597
Translation of assets and liabilities into U.S. dollars reporting currency	(3,500,329)	6,285,859	(1,097,872)	4,138,757
Comprehensive Income (Loss)	\$ (5,391,471)	\$ 5,025,217	\$ (4,707,654)	\$ 4,473,354
Accumulated Other Comprehensive Income (loss), opening balance	\$13,843,120	\$(3,529,036)	\$ 11,440,663	\$(1,381,934)
Translation of assets and liabilities into U.S. dollars reporting currency	(3,500,329)	6,285,859	(1,097,872)	4,138,757
Accumulated Other Comprehensive Income, closing balance	\$10,342,791	\$ 2,756,823	\$ 10,342,791	\$ 2,756,823

See accompanying notes to consolidated financial statements.



# HEMISPHERE GPS INC.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
<b>Cash flows from (used in) operating activities:</b>				
Earnings (loss) from				
continuing operations	\$ (1,891,142)	\$ (1,260,642)	\$ (3,609,782)	\$ 334,597
Items not involving cash:				
Amortization	902,467	821,767	1,850,846	1,591,190
Stock-based compensation	195,601	205,638	363,725	422,506
Unrealized foreign exchange loss (gain)	(339,732)	492,472	(202,493)	23,120
	(1,132,806)	259,235	(1,597,704)	2,371,413
<b>Change in non-cash operating working capital:</b>				
Accounts receivable	(899,239)	3,165,179	(2,261,529)	445,478
Inventories	1,201,584	809,492	2,048,877	(3,608,315)
Prepaid expenses and deposits	175,969	66,425	182,820	54,748
Deferred commissions	20,089	13,600	91,360	44,582
Accounts payable and accrued liabilities	(124,431)	(4,373,213)	1,913,573	(2,515,713)
Foreign currency contract	–	(2,985,954)	–	(3,270,210)
Deferred revenue	(131,196)	(185,617)	(367,331)	(234,865)
	(890,030)	(3,230,853)	10,066	(6,712,882)
<b>Cash flows used in financing activities:</b>				
Capital lease obligations	(22,589)	–	(44,443)	–
	(22,589)	–	(44,443)	–
<b>Cash flows used in investing activities:</b>				
Purchase of property and equipment	(213,771)	(298,996)	(425,916)	(529,397)
Intangible asset additions	(26,548)	(493,390)	(79,880)	(697,300)
	(240,319)	(792,386)	(505,796)	(1,226,697)
Decrease in cash position	(1,152,938)	(4,023,239)	(540,173)	(7,939,579)
Effect of currency translation on cash balances and cash flows	(16,219)	302,076	28,657	441,810
Cash and cash equivalents, beginning of period	9,055,059	12,512,069	8,397,418	16,288,675
Cash and cash equivalents, end of period	\$ 7,885,902	\$ 8,790,906	\$ 7,885,902	\$ 8,790,906
<b>Cash and cash equivalents consist of:</b>				
Cash	\$ 885,902	\$ 4,790,906	\$ 885,902	\$ 4,790,906
Term deposits	7,000,000	4,000,000	7,000,000	4,000,000
<b>Supplemental disclosure:</b>				
Interest paid	\$ 13,004	\$ 14,448	\$ 29,033	\$ 18,500

See accompanying notes to consolidated financial statements.



# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements

Three and six month periods ended June 30, 2010 and 2009  
(unaudited – expressed in U.S. dollars)

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## 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, 2009.

## 2. 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.

## 3. Share capital:

(a) Authorized:

Unlimited common shares

Unlimited first preferred shares, issuable in series

Unlimited second preferred shares, issuable in series

(b) Issued:

Issued share capital consists of 55,561,676 common shares at \$107,708,468.



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

(c) Stock-based compensation:

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

Three month period ended

	June 30, 2010		June 30, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of period	4,640,822	\$ 1.75	4,253,847	\$ 1.84
Granted	204,000	0.85	95,000	1.48
Forfeited and expired	(335,373)	2.75	(432,958)	2.47
Stock options outstanding, end of period	4,509,449	\$ 1.64	3,915,889	\$ 1.76

Six month period ended

	June 30, 2010		June 30, 2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Total options outstanding, beginning of period	4,831,609	\$ 1.82	4,256,347	\$ 1.84
Granted	260,005	0.84	95,000	1.48
Forfeited and expired	(582,165)	2.87	(435,458)	2.47
Stock options outstanding, end of period	4,509,449	\$ 1.63	3,915,889	\$ 1.76



#### 4. Segmented information:

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

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

##### Three month period ended

June 30, 2010	Agriculture	Precision	Shared	Total
Sales	\$ 12,740,000	\$ 2,817,000	\$ –	\$ 15,557,000
Contribution (loss)	\$ 2,661,000	\$ 733,000	\$ (5,285,000)	\$ (1,891,000)

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

##### Six month period ended

June 30, 2010	Agriculture	Precision	Shared	Total
Sales	\$ 25,222,000	\$ 5,404,000	\$ –	\$ 30,626,000
Contribution (loss)	\$ 5,079,000	\$ 1,590,000	\$ (10,279,000)	\$ (3,610,000)

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



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

Sales by geographic segments:

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
United States	\$ 6,015,000	\$ 6,377,000	\$ 13,978,000	\$ 16,890,000
Canada	3,507,000	4,204,000	6,135,000	7,199,000
Europe	2,624,000	2,109,000	4,714,000	5,198,000
Australia	851,000	538,000	1,220,000	1,134,000
Other	2,560,000	1,237,000	4,579,000	1,999,000
	\$ 15,557,000	\$ 14,465,000	\$ 30,626,000	\$ 32,420,000

Assets by geographic segments:

	June 30, 2010	December 31, 2009
United States	\$ 46,086,000	\$ 50,637,000
Canada	22,446,000	20,070,000
Australia	17,845,000	18,615,000
	\$ 86,377,000	\$ 89,322,000

**5. Restructuring costs:**

Restructuring costs consist of severance and other costs related to workforce reduction in the Hiawatha office. The Company paid \$157,985 of restructuring costs during the period.

**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.

**7. Comparative figures:**

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