Q3 Interim Report

September 30, 2009

Hemisphere GPS®

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Hemisphere GPS®

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Message to Shareholders

For the third quarter ended September 30, 2009, Hemisphere GPS reported a 31% decrease in revenues to $9.1 million, versus $13.2 million in the third quarter of 2008. Hemisphere GPS reported a net loss of $3.8 million, or $(0.07) per share (basic and diluted) in the third quarter of 2009 compared to a net loss of $0.2 million, or $0.00 per share (basic and diluted) in the third quarter of 2008.

Recessionary conditions have impacted global markets during the first three quarters of 2009. In addition to the economic malaise which dampened spending within Hemisphere GPS' target markets, a relatively late harvest in 2009 is also believed to have reduced customer purchasing activity in agriculture, particularly in the third quarter. As of October 25, 2009, the National Agricultural Statistics Service (NASS) of the USDA reported that 20% of corn in the primary producing States has been harvested compared to 37% at the same time in 2008. Similarly, 44% of soybean crops have been harvested compared to 75% in 2008.

Our customers continued to be cautious during the third quarter in light of these conditions. This has generated a negative impact on revenues relative to 2008. In August, the US Department of Agriculture ("USDA") revised its net farm income projections – which include both crop and livestock farms - downward for 2009 – to $54.0 billion, down from its February estimate of $71.2 billion, which is a 39% decline from actual net farm income of $89.3 billion in 2008. Though projected net farm income is 14% lower than the 10-year average, crop receipts are still projected to represent the second highest level on record after 2008. Corn production for 2009 is projected to total 13 billion bushels, the second highest on record, and Soybean production is projected to be nearly 3.2 billion bushels - the highest on record.

We view the fundamentals of the global agriculture markets to be positive for the mid to long term. Crop prices have declined from the record levels seen in 2008, however, they remain high by historical standards. The USDA forecasts high farm production costs to decline in 2009 – the first time costs have declined since 2002.

It is sometimes forgotten that we are indeed a technology company, and not a pure play agriculture company. Given the exposure that our revenue stream has for the agriculture sector, we certainly spend a lot of time discussing this part of our business. However, this should not overshadow the fact that we also have very significant opportunities across a number of other industry sectors with our technology in specific vertical markets such as marine, and now earthworks, where we currently have prototypes in the field.

In terms of international markets, we continue our international expansion initiatives by adapting our product portfolio to cater to many regions throughout the world, with additional product features and support for 20 different languages. By making existing products more inclusive, and developing our new products specific to target market regions, we continue our commitment to broadening our global market presence.

To complement our presence in the Southern Hemisphere in places like Brazil, Argentina, Australia, we are also focusing on inroads into Eastern Europe and Russia, China, and India. There are several other small countries that we're making inroads into as well. These regions trail the North American adoption rate, and are ripe for our proven technologies. We're moving to strengthen our distribution to reach more of these international regions, and establish a leadership position in these emerging markets.

In November Hemisphere GPS and CLAAS Agrosystems introduced the customized Outback Sts™ at Agritechnica 2009 for Europe. The Outback Sts is the latest addition to the situational awareness and data management tools from the Outback Guidance® product line. The new customized version of the Hemisphere GPS Outback Sts guidance system for CLAAS features 16 languages specifically for the European market, including Romanian, Russian, Ukrainian, and Lithuanian.

We entered China earlier this year, with our products incorporating the Chinese character set. In China there are over 17 million tractors, and the use of fertilizer has increased 80 percent in past years, giving the indication of the activity within the Chinese agriculture market. With a number of distribution partners now in place, we believe we have an early leadership opportunity in that region.

In terms of products development, our focus is on continued innovation. From the back half of 2009 this is evident as we've leveraged our innovation leadership, driving new product releases and patent awards. Further product introductions are also scheduled for commercial introduction during the fourth quarter of 2009.

We recently introduced our new dual frequency smart antenna and base station; the A220 and A221. In rugged, portable all-in-one enclosures, the A220 and A221 deliver centimeter-level positioning accuracy for precise guidance, machine control and survey applications. These latest additions to the Hemisphere GPS line of smart antennas, offer an affordable, dual frequency GPS solution with unparalleled performance.

We also signed a strategic partnership agreement with Handheld Group of Sweden for a custom version of Hemisphere's advanced GPS receiver technology for the GIS data collection market branded as the Handheld Kenaz DGPS receiver. The new Kenaz DGPS receiver offers superior accuracy for handheld mapping and is specifically designed to work with the popular TDS Nomad™. We also announced the XF102 DGPS receiver for handheld mapping. The XF102 is ideal for professional GIS applications and surveying, and is specifically designed to work with the popular TDS Nomad™ handheld GIS data collection device. As the utilization of GIS grows, the demand for rugged GPS data collection devices grows as well.

Ag Leader announced compatibility between Hemisphere GPS data file formats with its SMS™ Basic and SMS Advanced mapping software solutions, providing a complete solution for customers across North America who are collecting site specific data. Ag Leader's compatibility extends across Hemisphere GPS precision guidance products; including Outback 360™, Outback Sts™, Outback S3™ and the Air M3™ system. Data such as coverage maps, as-applied rates, field boundaries, marks, and guidance lines are supported.

In addition to managing a responsible business, we're also proud of the positive impact our products have on the environment. We recently received recognition in this area, when we were awarded a position on the 2009 Cleantech 10 list in recognition of the companies that minimize impact human activity has on the environment. Our products help to improve operational performance, while reducing the impact of chemical application, and lower energy consumptions. We were awarded a top 10 ranking out of the 122 Cleantech companies currently trading on the Toronto Stock Exchange.

In summary, we are managing the business responsibly through this difficult period and reduced sales volumes. Operationally, the company is stable, with ample working capital and no debt, and we continue to invest appropriately to further develop the competitiveness of our product portfolio.

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

Steven Koles
President & CEO

Interim Management Discussion and Analysis

Nine month period ended September 30, 2009

The following discussion and analysis is effective as of November 13, 2009 and should be read together with the unaudited interim consolidated financial statements of Hemisphere GPS Inc. ("Hemisphere GPS" or the "Company") for the three and nine month periods ended September 30, 2009 and the accompanying notes. Additional information relating to Hemisphere GPS, including the Company's Annual Information Form, can be obtained from documents filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") on the internet at www.sedar.com and which is supplemental to the unaudited interim consolidated financial statements and notes for the three and nine month periods ended September 30, 2009.

Overview

Hemisphere GPS designs, manufactures and sells innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. Hemisphere GPS carries out its activities through two business units: Agriculture (ground and air agriculture markets) and Precision Products (non-agriculture markets including marine and geographic information systems). The primary vertical market for the Company's products is agriculture representing over 80% of its revenues. Approximately 70% of 2009 year-to-date revenues were from customers in North America.

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

Economic and Market Trends

Financial Markets

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

Agriculture Markets

In its August 2009 updated *Farm Income and Costs: 2009 Farm Sector Income Forecast,* the US Department of Agriculture ("USDA") projects that *net farm income* – which includes both crop and livestock farms – will be $54.0 billion in 2009, down from its February estimate of $71.2 billion and from 2008 estimated net farm income of $87.1. This is 14% lower than the 10-year average. Crop receipts, according to the forecast, represent the second highest level on record after 2008. Corn production is projected to total 13 billion bushels (the second highest on record) and Soybean production is projected to be nearly 3.2 billion bushels (the highest on record).

Crop prices have declined from the record levels seen in 2008, however, they remain high by historical standards - driven by lower grain inventory levels and increasing demand from a variety of sources including global population growth, the changing diets of emerging economies, as well as from demand for ethanol and other grain-based biofuels. Farm production costs remain high, however, the USDA expects costs to decline in 2009 – the first time costs have declined since 2002.

2009 crop production in the United States for corn and soybeans is running later than in 2008 due to impact of weather on planting and harvesting. As of October 25, 2009, the National Agricultural Statistics Service (NASS) of the USDA reports that 20% of corn in the primary producing States has been harvested compared to 37% at the same time in 2008. Similarly, 44% of soybean crops have been harvested compared to 75% in 2008.

Company Management views the fundamentals of the global agriculture markets to be positive for the mid to longer term driven by the following key factors: population growth, limited arable land, the need for increased output, and a relatively low global penetration of precision agriculture technologies such as GPS and auto-steering. Volatile financial markets and caution from recessionary conditions appear to be driving the deferral of discretionary agricultural equipment purchases in 2009. For 2009, Company revenues are down by 33% compared to 2008, which Management believes is largely a result of conservative purchasing by our customers in light of global economic uncertainty.

Currency Markets

The Company's financial results are impacted by changes in foreign currency rates – particularly the Canadian/US dollar exchange rate. After weakening from 2002 to 2007, the US dollar stabilized against the Canadian dollar for the full year of 2008 where the average rate for the year was largely flat with the average for 2007. The US dollar began to strengthen against the Canadian dollar during the last half of 2008 and into the first quarter of 2009, however, during the second and third quarter, the US dollar again weakened against the Canadian dollar. The average foreign exchange rate for the third quarter of 2009 was $1.0974 Cdn/US, down by 6% from the second quarter of 2009, but up by 5% compared to the third quarter of 2008.

From a purely financial perspective, a weaker US dollar is negative for the Company's earnings as a portion of the Company's expenses are incurred in Canadian and Australian dollars – and such expenses are higher when translated at a weaker US dollar foreign exchange rate. However, from a business perspective, the weaker US dollar relative to global currencies reduces the net price of the Company's products to international customers as sales are made in US dollars – which could result in higher sales.

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

	Quarter Ended							
	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009
Quarterly average	$ 0.9818	$ 1.0041	$ 1.0100	$ 1.0418	$ 1.2125	$ 1.2453	$ 1.1671	$ 1.0974
Quarter end	$ 0.9881	$ 1.0279	$ 1.0186	$ 1.0599	$ 1.2246	$ 1.2602	$ 1.1625	$ 1.0722

Results of Operations

Summary of Quarterly Results

(000's)	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009
Sales	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,518	$ 17,955	$14,465	$ 9,069
Gross margin	6,079	13,074	12,088	6,815	4,826	9,407	7,283	3,901
	45%	50%	52%	52%	46%	52%	50%	43%
Expenses:								
Research and development	1,449	1,804	2,027	1,943	2,324	2,101	1,996	2,345
Sales and marketing	2,741	3,298	3,299	2,728	2,683	3,225	2,832	2,514
General and administrative	1,725	1,965	2,168	1,657	1,399	1,575	1,769	1,684
Stock-based compensation	133	128	221	190	161	217	206	219
Amortization	673	928	911	861	728	713	763	831
	6,721	8,123	8,626	7,379	7,295	7,831	7,566	7,593
Earnings (loss) before undernoted items	(642)	4,951	3,462	(564)	(2,469)	1,576	(283)	(3,692)
Foreign exchange (gain) loss	27	(594)	322	(242)	(112)	(10)	173	76
Interest income	(94)	(115)	(92)	(89)	(109)	(9)	(7)	(2)
Restructuring costs	–	–	–	–	251	–	812	–
Other income	–	(263)	–	–	–	–	–	–
Legal fees on settlement of lawsuit	96	–	–	–	151	–	–	–
Earnings (loss) before income tax	(671)	5,923	3,232	(233)	(2,650)	1,595	(1,261)	(3,766)
Income tax	–	114	62	–	–	–	–	–
Earnings (loss) before discontinued operations	(671)	5,809	3,170	(233)	(2,650)	1,595	(1,261)	(3,766)
Income (loss) from discontinued operations	29	–	–	–	–	–	–	–
Net earnings (loss)	$ (642)	$ 5,809	$ 3,170	$ (233)	$ (2,650)	$ 1,595	$ (1,261)	$ (3,766)
Earnings (loss) per common share from continuing operations *:								
Basic and diluted	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)	$ 0.03	$ (0.02)	$ (0.07)
Net earnings (loss) per common share *:								
Basic and diluted	$ (0.01)	$ 0.11	$ 0.06	$ (0.00)	$ (0.05)	$ 0.03	$ (0.02)	$ (0.07)

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

Operating Segments

In the second quarter of 2009, the Company combined its Ground Agriculture and Air business units into a single business unit. As a result, for reporting purposes, the Company now reports activities under two operating segments: Agriculture and Precision Products. Amounts reported in the past for Ground Agriculture and Air have been combined and reported as Agriculture.

Sales by segment on a quarterly basis are as follows:

	For the Quarter Ended							
(000's)	Dec 31 2007	Mar 31 2008	Jun 30 2008	Sep 30 2008	Dec 31 2008	Mar 31 2009	Jun 30 2009	Sep 30 2009
Agriculture	$ 11,425	$ 23,160	$ 20,047	$ 10,146	$ 8,417	$ 15,755	$ 11,794	$ 6,385
Precision Products	2,046	2,749	2,990	3,055	2,100	2,200	2,671	2,684
	$ 13,471	$25,909	$ 23,037	$ 13,201	$10,517	$ 17,955	$ 14,465	$ 9,069

Quarter Ended September 30, 2009 versus Quarter Ended September 30, 2008

Revenue

For the three months ended September 30, 2009, revenue was $9.1 million, down 31% from revenues of $13.2 million for the same period of 2008. Revenues from the Company's operating segments were as follows in the third quarter of 2009 and 2008:

(000's)	**Q3 2009**	**Q3 2008**	**Change**
Agriculture	$ 6,385	$ 10,146	-37%
Precision Products	2,684	3,055	-12%
	$ 9,069	$ 13,201	-31%

Revenues from the Agriculture segment were down by 37% in the third quarter compared to 2008. Customer purchasing activity was below management's expectations, particularly in the agriculture sector. In addition to the economic malaise which dampened spending within Hemisphere GPS' target markets, a relatively late harvest in 2009 is also believed to have reduced customer purchasing activity in Agriculture. Management believes that this has continued to cause farmers, as well as OEM and system integrator customers, to remain cautious with respect to their spending on agricultural equipment.

Revenues from international and OEM/system integrator customers in Agriculture were down to a greater extent than North American retail sales as these customers adjusted purchases and inventory levels to respond to recessionary conditions.

Revenues from the Precision Products segment were less impacted than Agriculture with revenue declining 12% compared to 2008. Similar to the Agriculture segment, revenues from OEM and international customers represented the largest decline.

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

(000's)	Q3 2009	Q3 2008	Change
North America	$ 5,191	$ 7,128	-27%
Europe	1,782	2,825	-37%
Australia	177	447	-60%
Other	1,919	2,801	-31%
	$ 9,069	$ 13,201	-31%

Hemisphere GPS is seeing some signs of recovery in North America, however, international revenues remain weak. Third quarter revenues for North America declined by 27% compared to 2008, which shows a moderately improving trend relative to the first half of 2009 when revenues declined by 34% from 2008. International revenues were down by 36% - similar to the first half of 2009 in which they were down by 34%. The recent weakening of the US dollar effectively increases the purchasing power in international markets, notably South America, Europe and Australia, which could positively influence sales.

Gross Margin

Third quarter gross margins of $3.9 million were down from $6.8 million for the same quarter of 2008. On a percentage basis, gross margins were 43% compared to 52% in 2008. The key factors contributing to lower gross margins during the third quarter are the impact of fixed manufacturing costs on lower revenue levels, the impact of the significant weakening of the US dollar and lower software revenues.

Despite headcount reductions of 19 employees in its manufacturing department compared to the third quarter of 2008, the allocation of the remaining fixed manufacturing overhead across revenues lower by 31% has a negative impact on gross margins estimated to be approximately 2%.

The weakening of the US dollar also had a significant impact on gross margins for the quarter. With the decline in revenues experienced in 2009, the Company has realized a reduction in its inventory turnover for the year. As a result, a majority of the US dollar inventory held by the Company during the third quarter was acquired during the first and second quarter – when the US dollar was substantially stronger than it was during the third quarter. As the Company has a Canadian dollar measurement currency, US dollar revenues earned in the third quarter are converted into Canadian dollars using the third quarter foreign exchange rate – which averaged $1.0974. However, when inventories are sold and brought into Canadian dollar cost of sales, they are recorded at the weighted average historical foreign exchange rate applicable when those inventories were acquired – which is approximately $1.2000. The Company estimates that this had a negative impact on gross margins of approximately 3%. This issue has had a less pronounced impact on past quarters as significant foreign exchange rate moves have not been combined with the slower inventory movement.

Operating Expenses

Operating expenses were $7.6 million in the third quarter, an increase of $0.2 million, or 3%, compared to the third quarter of 2008. The average foreign exchange rate of $1.0974 for the third quarter of 2009 is relatively consistent with the rate in 2008 of $1.0418, therefore, the change in foreign exchange rates had a nominal impact on relative operating expenses.

Management continues its focus on operating cost management as a result of the uncertainties associated with the global financial markets. As a result of cost management initiatives implemented in the second quarter, the Company's headcount of 238 employees is down by 24, or 9%, from 262 employees at March 31, 2009. The Company has also implemented other cost-savings initiatives to prudently manage costs.

Third quarter research and development expenses were 21% higher than in the same quarter of 2008. The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets. While R&D headcount has increased by 5% compared to the third quarter of 2008, additional R&D support has been engaged through increased consulting contracts – which provide for greater flexibility. In addition, costs incurred for project materials related to significant projects under development increased substantially compared to 2008.

Sales and marketing expenses were down from the third quarter of 2008 by 8%. Lower sales commissions, incentive plan accruals and discretionary costs contributed to this reduction. General and administrative expenses increased by 2% in the quarter. Lower incentive plan accruals were offset by increased legal costs and bad debt expense compared to 2008.

Other

In the third quarter of 2009, the Company recorded interest income of $2 thousand compared to interest income of $89 thousand in 2008. The Company earns interest income on cash balances, however, interest rates have declined significantly in 2009 compared to 2008 and the balance of cash was lower in 2009.

The Company realized a foreign exchange loss of approximately $0.1 million during the third quarter of 2009 compared to a gain $0.2 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. As the Company has a Canadian dollar measurement currency, the Company is 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 monetary working capital. A realized foreign currency risk management gain of $0.9 million is netted against the reported foreign exchange loss of $0.1 million in the third quarter.

Net Income (Loss)

Hemisphere GPS realized a net loss of $3.8 million, or $(0.07) per share (basic and diluted) in the third quarter of 2009 compared to a net loss of $0.2 million, or $0.00 per share (basic and diluted) in the third quarter of 2008.

Quarter Ended September 30, 2009 versus Quarter Ended June 30, 2009

Revenue

Revenue in the third quarter of 2009 of $9.1 million was down by 37% from revenue of $14.5 million in the second quarter of 2009.

Precision Products revenues of $2.7 million were flat compared to the second quarter with slightly stronger purchases of the Company's Vector heading sensor products.

Agriculture revenues were down by 46% from the second quarter. This decline is primarily explained by the seasonality experienced by the Company as third quarter Agriculture revenues are typically the weakest quarter of the year based on North American buying patterns. In 2009, the reduction of 46% compares to a corresponding decline of 49% in 2008 and 46% in 2007.

Gross Margin

Gross margins of $3.9 million were down from $7.3 million in the second quarter of 2009 as a result of lower revenues. Percentage gross margins of 43% were down from 50% in the second quarter as a result of the impact of fixed manufacturing costs on lower revenues and the impact of the weakening US dollar.

Operating Expenses

Operating expenses of $7.6 million for the three months ended September 30, 2009 were largely flat relative to the second quarter. Cost reductions previously announced had a positive quarterly impact of approximately $0.3 million. This was slightly offset by the weakening US dollar - which results in higher translated amounts for Canadian and Australian dollar denominated expenses.

Research and development expenses increased as a result of higher project material costs. Sales and marketing expenses were lower as a result of lower sales commissions and discretionary cost controls. General and administrative expenses were lower in the third quarter as a result of lower public company regulatory compliance costs and discretionary cost controls, which were offset to some extent by higher bad debt expense.

Other

Interest income of $2 thousand in the third quarter decreased from $7 thousand in the quarter ended June 30, 2009.

The Company reported a foreign exchange loss of $0.1 million in the third quarter of 2009 versus a loss of $0.2 million in the second quarter of 2009 relating primarily to the translation and settlement of US dollar denominated working capital. The Company realized a foreign exchange risk management gain of $0.9 million in the third quarter compared to a gain of $1.6 million in the second quarter. These gains are netted against the reported foreign exchange losses.

Net Income (Loss)

Hemisphere GPS realized a loss of $3.8 million, or $(0.07) per share (basic and diluted) in the third quarter of 2009 compared to a net loss of $1.3 million, or $(0.02) per share (basic and diluted) in the second quarter.

Nine Months Ended September 30, 2009 versus Nine Months Ended September 30, 2008

Revenue

Sales by Operating Segment (000's)	**Nine months ended** Sep 2009	Sep 2008	**Change**
Agriculture	$ 33,934	$ 53,352	-36%
Precision Products	7,555	8,794	-14%
	$ 41,489	$ 62,146	-33%

Revenue in the nine months ended September 30, 2009 of $41.5 million decreased by 33% from revenue of $62.1 million in the corresponding period of 2008. Management believes that the decrease is primarily related to the impact of recessionary conditions on its customers in the Agriculture and Precision

Products segments. In addition, the late harvest being experienced in 2009 has also impacted revenues in the Agriculture segment. Agriculture revenues have declined by 36% whereas Precision Products revenues have declined by 14%.

North American revenues have declined by 33% on a year-to-date basis, whereas International revenues have seen a decline of 34%. Compared to 2008, North American revenues performed relatively stronger in the third quarter than over the first half of the year, whereas the impact of recessionary conditions appears to have impacted International revenues to a greater extent in the third quarter.

Gross Margin

Gross margins of $20.6 million were down from $32.0 million in the first nine months of 2008 as a result of lower revenues. Percentage gross margins have declined from 51% in 2008 to 50%. The decline in year-to-date gross margins is primarily a result of the impact of fixed manufacturing costs on lower revenue levels.

Operating Expenses

Operating expenses of $23.0 million for the nine months ended September 30, 2009 have declined by $1.1 million from the same period of 2008. The average headcount over the first nine months of 2009 was about 1% higher than in 2008. Slightly higher compensation costs have been offset by lower discretionary costs and lower incentive plan accruals. In addition, on average the US dollar foreign exchange rate has been stronger over the first nine months of 2009, than it was in 2008, which has had a positive impact on operating expenses denominated in Canadian and Australian dollars.

Other

In the first nine months of 2009, the Company reported a foreign exchange loss of $0.2 million (2008 – gain of $0.5 million), which is net of a year-to-date foreign exchange risk management gain of $1.8 million.

Interest income (net of interest expense) of $19 thousand was earned during the first nine months of 2009 (2008 - $0.3 million). Restructuring costs of $0.8 million have been incurred in 2009 relating to a workforce reduction initiative and the closure of the Company's sales office in Euless, Texas.

Income Taxes

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

Net Earnings (loss)

The Company reported a net loss in the first nine months of 2009 of $3.4 million, or $(0.06) per share (basic and diluted), compared to net income of $8.7 million, or $0.16 per share (basic and diluted) in the corresponding period of 2008.

Liquidity and Capital Resources

Hemisphere GPS held cash of $7.9 million at the end of the third quarter compared to a balance of $8.8 million at June 30, 2009. The primary items impacting the cash balance during the third quarter were:

- Cash of $0.3 million was generated from operations after working capital changes, compared to $0.8 million of cash generated from operations in the third quarter of 2008.
- Cash was generated from the drawdown of accounts receivable ($2.1 million), the drawdown of inventory ($0.8 million) and from the settlement of a foreign currency risk management contract ($0.8 million) during the quarter. Cash was used to pay accounts payable ($1.0 million). Accounts payable have declined to a greater extent than accounts receivable during 2009 due to lower inventory-related trade payables at September 30, 2009.
- Inventory was originally built in anticipation of strong sales during the first half of the year, which is historically the strongest buying season for Hemisphere GPS. Softer than anticipated sales did not draw down inventory levels as expected. Management has previously disclosed that it expects that inventory would begin to draw down in the last half of 2009. Physical inventory levels have in fact drawn down during each of the second and third quarters when reported in the Company's underlying Canadian dollar measurement currency. However, the weakening US dollar has given the appearance on the balance sheet that inventory is growing. 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

- Total capital spending in the third quarter of 2009 was $0.5 million compared to $0.7 million in 2008. Tangible asset capital costs include computer equipment and other assets. Intangible asset capital costs include the costs associated with the development of integrated circuits for future product developments.
- During the third quarter, no stock options were exercised.
- As of September 30, 2009, there were 55,561,676 common shares outstanding. No shares were acquired during the third quarter under the Normal Course Issuer Bid announced in September 2008 and which expired during the quarter.

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

Critical Accounting Policies and Estimates and Changes in Accounting Policies

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

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

Update on the Conversion to International Financial Reporting Standards

The Company is in the assessment phase of the conversion. This includes, among other things, identifying the differences between existing Canadian GAAP and IFRS, the project structure and governance, resource requirements, training plans, review of the impact on information management systems and internal controls and the analysis of the potential for exemptions under IFRS 1. Preliminary work has commenced relating to certain internal process changes that will 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 disclosure controls and internal controls over financial reporting as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

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

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

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

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

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

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

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

Forward-Looking Information

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

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

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

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

- competition;
- departure of key personnel or consultants;
- inability to introduce new technology and new products in a timely manner;
- changes in the GPS network and other systems outside of our control;
- misappropriation of proprietary information;
- legal claims for the infringement of intellectual property and other claims;
- incorrect assessments of the value of acquisitions;
- fluctuation in foreign exchange or interest rates;
- uncertainties in the global economy;
- negative conditions in general economic and financial markets;
- reliance on key suppliers;
- availability of key supplies and components;

- dependence on major customers;
- losses from credit exposures;
- product liability;
- damage or loss of use of physical facilities;
- stock market volatility and market valuations;
- conflicts of interest;
- changes in income tax laws and other government regulations; and
- the other factors discussed under "Business and Market Risks".

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

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

Consolidated Financial Statements of

Hemisphere GPS

Three and nine months ended September 30, 2009 and 2008

(unaudited - expressed in U.S. dollars)

HEMISPHERE GPS INC.

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 7,890,268	$ 16,288,684
Accounts receivable	6,071,270	7,409,108
Inventories	19,309,039	14,016,645
Deferred commissions	202,645	215,402
Prepaid expenses and deposits	732,235	679,863
	34,205,457	38,609,702
Deferred commissions	140,068	171,852
Property and equipment	7,796,143	6,871,801
Intangible assets	7,495,383	7,029,627
Goodwill	39,942,946	34,972,095
	$ 89,579,997	$ 87,655,077
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 3,911,128	$ 6,634,059
Foreign exchange contract (note 5)	–	3,270,210
Deferred revenue	1,355,946	1,484,166
Current portion of capital lease (note 6)	42,910	–
	5,309,984	11,388,435
Deferred revenue	932,505	1,035,220
Capital lease (note 6)	87,060	–
Shareholders' equity:		
Share capital (note 3)	107,708,468	108,162,136
Share capital purchased for cancellation under Normal Course Issuer Bid	–	(450,633)
Contributed surplus	3,775,434	3,134,045
Deficit	(37,664,027)	(34,232,193)
Accumulated other comprehensive income	9,430,573	(1,381,933)
	83,250,448	75,231,422
	$ 89,579,997	$ 87,655,077

See accompanying notes to consolidated financial statements.

Approved by the Board:

Paul Cataford, Director

John M. Tye III, Director

HEMISPHERE GPS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Sales	$ 9,068,537	$13,200,562	$ 41,488,850	$ 62,146,093
Cost of sales	5,167,702	6,385,168	20,898,199	30,168,245
	3,900,835	6,815,394	20,590,651	31,977,848
Expenses:				
Research and development	2,344,818	1,942,851	6,441,726	5,773,259
Sales and marketing	2,514,406	2,728,792	8,571,404	9,326,253
General and administrative	1,684,214	1,657,301	5,022,275	5,790,951
Stock-based compensation (note 3(c))	218,699	190,056	641,205	538,847
Amortization	830,972	860,883	2,307,422	2,699,949
	7,593,109	7,379,883	22,984,032	24,129,259
Earnings (loss) before undernoted items	(3,692,274)	(564,489)	(2,393,381)	7,848,589
Foreign exchange loss (gain)	76,320	(242,180)	245,110	(513,973)
Net interest income	(2,163)	(88,978)	(18,843)	(296,252)
Restructuring costs (note 7)	–	–	812,186	–
Other income	–	–	–	(263,036)
Earnings (loss) before income taxes	(3,766,431)	(233,331)	(3,431,834)	8,921,850
Current income taxes	–	–	–	175,903
Net earnings (loss)	(3,766,431)	(233,331)	(3,431,834)	8,745,947
Deficit, beginning of period	(33,897,596)	(31,340,301)	(34,232,193)	(40,469,714)
Adjustment due to adoption of new accounting policy	–	–	–	150,135
Adjustment due to Normal Course Issuer Bid	–	(8,623)	–	(8,623)
Deficit, end of period	$(37,664,027)	$(31,582,255)	$(37,664,027)	$(31,582,255)
Earnings (loss) per common share:				
Basic and diluted	$ (0.07)	$ –	$ (0.06)	$ 0.16
Weighted average shares outstanding:				
Basic	55,561,676	56,223,363	55,561,676	54,482,290
Diluted	55,561,676	56,484,373	55,561,676	54,898,548

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Net earnings (loss)	$ (3,766,431)	$ (233,331)	$ (3,431,834)	$ 8,745,947
Translation of assets and liabilities into U.S. dollars reporting currency	6,673,750	(3,703,837)	10,812,506	(6,388,675)
Comprehensive Income (Loss)	$ 2,907,319	$ (3,937,168)	$ 7,380,672	$ 2,357,272
Accumulated Other Comprehensive Income (loss), opening balance	$ 2,756,823	$14,540,822	$ (1,381,933)	$17,225,660
Translation of assets and liabilities into U.S. dollars reporting currency	6,673,750	(3,703,837)	10,812,506	(6,388,675)
Accumulated Other Comprehensive Income, closing balance	$ 9,430,573	$10,836,985	$ 9,430,573	$10,836,985

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Cash flows from (used in) operating activities:				
Earnings (loss)	$ (3,766,431)	$ (233,331)	$ (3,431,834)	$ 8,745,947
Items not involving cash:				
Amortization	895,748	930,553	2,486,938	2,919,311
Stock-based compensation	218,699	190,056	641,205	538,847
Unrealized foreign exchange loss	602,991	793,022	1,197,062	77,257
	(2,048,993)	1,680,300	893,371	12,281,362
Change in non-cash operating working capital:				
Accounts receivable	2,064,062	347,111	2,509,540	(851,777)
Inventories	813,500	(499,020)	(2,662,571)	7,583
Prepaid expenses and deposits	(14,151)	(711,953)	40,597	(508,795)
Deferred commissions	47,685	42,318	92,267	436
Accounts payable and accrued liabilities	(1,045,652)	1,122,323	(3,561,365)	(504,883)
Settlement of foreign currency contract	844,861	(871,780)	(1,478,678)	(856,072)
Notes payable	–	–	–	(322,680)
Deferred revenue	(322,232)	(292,776)	(557,097)	43,331
	339,080	816,523	(4,723,936)	9,288,505
Cash flows from (used in) financing activities:				
Capital lease obligations	–	–	–	(101,003)
Issue of share capital, net	–	40,992	–	980,932
Purchased and cancelled common shares	–	(428,854)	–	(428,854)
	–	(387,862)	–	451,075
Cash flows used in investing activities:				
Purchase of property and equipment	(290,169)	(705,127)	(951,817)	(1,718,607)
Intangible asset additions	(205,014)	–	(902,314)	–
Business acquisition, net	–	–	–	(92,654)
	(495,183)	(705,127)	(1,854,131)	(1,811,261)
Increase (decrease) in cash position	(156,103)	(276,466)	(6,578,067)	7,928,319
Effect of currency translation on cash balances and cash flows	(744,535)	(769,505)	(1,820,349)	(574,032)
Cash and cash equivalents, beginning of period	8,790,906	21,856,037	16,288,684	13,455,779
Cash and cash equivalents, end of period	$ 7,890,268	$ 20,810,066	$ 7,890,268	$ 20,810,066
Cash and cash equivalents consist of:				
Cash	$ 3,890,268	$ 3,884,666	$ 3,890,268	$ 3,884,666
Term deposits	4,000,000	16,925,400	4,000,000	16,925,400
Supplemental disclosure:				
Interest paid	$ 1,038	$ 7,687	$ 19,538	$ 22,122

See accompanying notes to consolidated financial statements.

HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements

Three and nine month periods ended September 30, 2009 and 2008
(unaudited – expressed in U.S. dollars)

1. Basis of presentation:

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

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

2. Cash and cash equivalents:

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

3. Share capital:

(a) Authorized:

Unlimited common shares

Unlimited first preferred shares, issuable in series

Unlimited second preferred shares, issuable in series

(b) Issued:

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

	Number of Shares	Amount
Balance, December 31, 2008	55,788,376	$108,162,136
During first quarter of 2009, cancelled under Normal Course Issuer Bid	(226,700)	(453,668)
Balance September 30, 2009	55,561,676	$107,708,468

(unaudited – expressed in U.S. dollars)

3. Share capital (continued):

(c) Stock-based compensation:

At September 30, 2009 there were 3,810,889 (2008 – 3,316,347) stock options outstanding. During the third quarter of 2009 the Company granted 40,000 stock options with weighted average exercise price of Cdn $1.06 (2008 – nil) and recorded $218,699 compensation expense (2008 – $190,056). For the nine months ended September 30, 2009, the Company granted 40,000 stock options (2008 – 1,127,500) and recorded $641,205 (2008 – $538,847) as compensation expense.

4. Segmented information:

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

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

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

Three month period ended September 30, 2009	Agriculture	Precision	Shared	Total
Sales	$ 6,385,000	$ 2,684,000	$ –	$ 9,069,000
Contribution (loss)	$ (902,000)	$ 985,000	$ (3,849,000)	$ (3,766,000)

September 30, 2008	Agriculture	Precision	Shared	Total
Sales	$ 10,146,000	$ 3,055,000	$ –	$ 13,201,000
Contribution (loss)	$ 2,859,000	$ 1,012,000	$ (4,104,000)	$ (233,000)

(unaudited – expressed in U.S. dollars)

4. Segmented information (continued):

Nine month period ended

September 30, 2009	Agriculture	Precision	Shared	Total
Sales	$ 33,934,000	$ 7,555,000	$ –	$ 41,489,000
Contribution (loss)	$ 4,478,000	$ 2,717,000	$(10,627,000)	$ (3,432,000)

September 30, 2008	Agriculture	Precision	Shared	Total
Sales	$ 53,352,000	$ 8,794,000	$ –	$ 62,146,000
Contribution (loss)	$ 20,554,000	$ 2,739,000	$(14,547,000)	$ 8,746,000

Sales by geographic segments:

	Three months ended		**Nine months ended**	
	September 30, 2009	**September 30, 2008**	**September 30, 2009**	**September 30, 2008**
United States	$ 3,743,000	$ 5,022,000	$ 20,633,000	$ 30,100,000
Canada	1,448,000	2,106,000	8,647,000	13,412,000
Europe	1,782,000	2,825,000	6,980,000	8,005,000
Australia	177,000	447,000	1,311,000	3,331,000
Other	1,919,000	2,801,000	3,918,000	7,298,000
	$ 9,069,000	$ 13,201,000	$ 41,489,000	$ 62,146,000

Assets by geographic segments:

	September 30, 2009	**December 31, 2008**
United States	$ 48,705,000	$ 49,092,000
Canada	21,767,000	21,376,000
Australia	19,108,000	17,187,000
	$ 89,580,000	$ 87,655,000

(unaudited – expressed in U.S. dollars)

5. Foreign exchange contract:

On October 1, 2009, the Company entered into a foreign exchange contract expiring on December 31, 2009 to sell $8.5 million US dollars and buy Cdn dollars at a forward rate of $1.0728. This contract will be recorded at fair value with the change in fair value recognized through earnings and included in "Foreign exchange loss (gain)" in the Consolidated Statements of Operations and Deficit.

6. Capital Lease:

The Company has certain computer equipment under capital lease expiring in 2013.

	2009
2009	$ 10,725
2010	42,910
2011	42,910
2012	42,910
2013	21,457
Total future minimum capital lease payments	160,912
Less: interest portion (at a rate of 8.1%)	30,942
Net minimum lease payments	129,970
Less: current portion	42,910
	$ 87,060

The equipment under capital lease has been recognized in property and equipment at the present value of minimum lease payments. Amortization and interest charges to date are not significant.

7. Restructuring cost:

During the second quarter, the Company completed certain restructuring activities with the objective of improving the efficiency and effectiveness of its operations. These activities included the closure of the Euless, Texas office and a workforce reduction program. The costs associated with these activities in the second quarter were $812,000 which include costs of $200,000 for lease-break costs related to the closure of the Euless, Texas office, $128,000 of severance and other costs and $484,000 related to the workforce reduction program. In addition to these costs, the Company accrued $160,000 of termination costs related to the closure of the Euless, Texas office at December 31, 2008. The Company paid $366,000 of the restructuring costs during the second quarter and $162,912 during the current quarter.

8. 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.

9. Comparative figures:

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