



## **Q2 Interim Report**

**June 30, 2008**

## Message to Shareholders

For our 2008 second quarter, Hemisphere GPS reported a 59% increase in revenues to a second quarter record of \$23.0 million; a substantial increase from revenues of \$14.5 million in the second quarter of 2007. We exceeded our growth targets for the quarter, delivered gross margins 2.5 points above our minimum target of 50%, and earned \$0.06 per share in profit.

We have seen a significant increase in revenues since the North American harvest began in the third quarter of 2007. Today, the acceptance of GPS and auto-steering within precision agriculture is at an all-time high. Total revenues for the first half of 2008 have already reached \$49 million. Our twelve month trailing revenues are now at \$71 million, illustrating growth of 66%. This growth is being driven in all product categories and all geographic markets. This includes our ground agriculture products for farming, our air agriculture products for crop dusting, and also our precision products division which had a great quarter for marine navigation.

Significant strength in the global agriculture sector remains unabated as commodity prices and increased demand for both food and biofuels is reaping record revenues for farming operations. More than 85 percent of our revenues are derived from sales to the agriculture sector, so it is very important to us and directly drives our growth.

We've continued to be very successful in the mid-market with our industry award-winning Outback Guidance® S2™, but our new Outback S3™ was the star of the second quarter. Sales of our new high-end S3 were robust in the second quarter from demand in both the top tier and mid-tier segments.

The Outback S3 has our latest technology with a colour touch screen and a host of features, and it is positioned at the higher end of the market. It can be combined with the Outback eDrive™ steering system which automatically steers the vehicle as well as our Outback BaseLineHD™ product and our Outback AutoMate™ offering, which provides boom automation controls.

Our up-market Outback S3 maintains the value proposition of the complementary S2 and S Lite™ offerings with two core elements: ease of use and installation, backed up with exceptional customer support. These elements have enabled us to generate unit share gains across our broad portfolio of guidance products from the lower end life-style farmer to the higher end row crop producer. Ease of use of the S3 is very intuitive and we get very positive comments back on its ability to plug and play in the field with great portability. The installation factor is also attributable to the Outback eDrive. With the significant number of eDrive units in the field today, we continue to receive very positive feedback on how easy it is to install on the many different combinations of tractors it fits.

Our Outback eDrive product continues to be our biggest single product revenue generator; sales to our installed customer base and attachment rates for new customers continue to exceed our expectations. Auto steering is one of the highest growth opportunities for the foreseeable future. From a very low penetration rate it is quickly being adopted as a standard farming capability, required for today's precision agriculture practices.

Revenues from our Precision Products line – focused on non-agriculture markets - continued to show very strong growth, increasing by 73% in the second quarter and 76% year to date. The growth in this product line has been driven primarily by strong demand for our Crescent® Vector™ heading sensor products for marine navigation.

In our Marine business, we compete largely in the commercial vessel market and we are now looking to augment that by having a platform that would be more targeted to the higher volume leisure boating market.

We recently announced the addition of the LV100™ GPS Compass Board to our innovative precise heading and positioning product line – which addresses marine, and other machine control markets. For the well established marine GPS Compass market, our Vector products provide a winning alternative to traditional gyro and fluxgate compass sensors.

Products like the LV100 and S3 are the results of our attentive R&D efforts that leverage our patented technologies. We recently expanded our patent portfolio with some important patent awards. These patents highlight our investment in R&D and our continued drive to build our intellectual property assets to maintain a high level of difficulty for competitive duplication.

On a regional basis, our strong Q2 results benefited from our continued traction in North America and Europe during the busy selling season in Agriculture. We also experienced healthy growth from the Australian market. As we move out of the core buying seasons for these markets, the South American market remains an exciting growth region for us. Brazil and Argentina are showing robust growth potential and their supportive government policies that are creating a very positive market environment for agriculture and our end-customers. With our expanded agriculture product portfolio this year, we are able to address a broader customer base covering the mid, low and high ends of the market.

We continue to focus on international growth; to complement our recent expansion in the Southern Hemisphere, in places like Brazil, Argentina, Australia, we are now focusing on new inroads into Eastern Europe, Russia, China, and India.

We expect continued momentum in the agriculture market over the foreseeable future. The USDA is projecting planted acres for corn to be the 2<sup>nd</sup> highest since 1944. More broadly, we continue to see no indication of negative impacts from the US or global economic slowdown. We remain optimistic on the prospects for continued growth for Hemisphere GPS. With the maturity now generated in the business and continued strength in our balance sheet, we are well poised for further scalability as we continue to grow the business in all segments.

We thank you for your support of Hemisphere GPS and look forward to reporting to you on our progress following the close of our 2008 third quarter.

A handwritten signature in black ink, appearing to read "S. Koles", with a large, stylized initial "S" that loops around the first part of the name.

Steven Koles  
President & CEO  
July 29, 2008

**Hemisphere GPS Inc.**  
**Interim Management Discussion and Analysis**  
**Six month period ended June 30, 2008**

The following discussion and analysis is effective as of July 29, 2008 and should be read together with the unaudited interim consolidated financial statements of Hemisphere GPS Inc. ("Hemisphere GPS" or the "Company") for the six month period ended June 30, 2008 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 six month period ended June 30, 2008.

**Overview**

Hemisphere GPS Inc. is engaged in the design, manufacture and sale of innovative, cost-effective GPS products for positioning, guidance and machine control applications in agriculture, marine and other markets. Hemisphere GPS has three primary product lines: Ground Agriculture products, Air products and Precision products for non-agriculture markets, including marine and geographic information systems ("GIS").

On December 20, 2007, the Company announced that it had closed the acquisition of all of the outstanding shares of Beeline Technologies Pty Ltd. ("Beeline"), which complemented the Ground Agriculture product line in addition to providing technology with application in new vertical markets. The consolidated financial results for the first six months of 2008 include the financial results for Beeline.

Prior to 2006, the Company also carried out activities through its Wireless Business Unit, which included two primary product lines: Fixed Wireless Telephones and Telematics products. In 2006, the Company divested the Wireless product lines and as a result, those activities were treated as discontinued operations in the financial statements for 2006 and 2007. In 2008, the Wireless activities have largely wound down, and it is anticipated that there will be no significant further financial impact from such activities.

The Company elected to adopt the US dollar as its reporting currency effective January 1, 2008. The Company continues to have a Canadian dollar measurement currency for its consolidated operations. As a result of this change, all financial information referenced in this Management Discussion and Analysis is denominated in US dollars, unless otherwise indicated.

**Results of Operations**

**Quarter Ended June 30, 2008 versus Quarter Ended June 30, 2007**

**Revenue**

For the three months ended June 30, 2008, revenue was \$23.0 million, up 59% from revenues of \$14.5 million for the same period of 2007. 85% of this growth was organic, being associated with the Company's pre-existing product lines, with the remainder resulting from the acquisition of Beeline on December 20, 2007.

Strong revenue growth was seen in all product lines and regions. Revenues from the Company's operating segments were as follows in the second quarter of 2008 and 2007:

(000's)	<b>Q2 2008</b>	<b>Q2 2007</b>
Ground Agriculture	\$ 18,641	\$ 11,589
Air	1,406	1,134
Precision Products	2,990	1,750
	<b>\$ 23,037</b>	<b>\$ 14,473</b>

Revenue growth in Ground Agriculture and Air continues to be driven by strong fundamentals in the agriculture market driving higher grain prices and consequently farm incomes. In the second quarter of 2008, growth in North American revenues was 48% while non-North American revenue growth was 91% - reflecting strong global farm incomes from higher grain prices and the reinvestment of farm earnings into precision agriculture equipment to drive improved efficiency and productivity in the face of increasing input costs. Since the North American harvest began during the third quarter of 2007, the Company has realized growth of approximately 66% compared to the same period in the prior year.

Revenues from the Company's Precision products line – focused on non-agriculture markets - continued to show very strong growth, increasing by 71% in the second quarter and 75% year-to-date. The growth in this product line has been driven by strong demand for the Company's Vector GPS compass sensor products, differential GPS receivers and GPS components sold to original equipment manufacturers ("OEM's") and system integrators.

### **Gross Margin**

Gross margins for the quarter of \$12.1 million and 52.5% are up from \$6.8 million and 46.7% in the second quarter of 2007.

Gross margins have improved as a result of initiatives focused on margin improvement including new products, pricing programs, the outsourcing of higher volume components and finished goods to third-party manufacturing overseas, and the inclusion of software revenues from the Beeline acquisition which generate very high gross margins.

### **Expenses**

Operating expenses were \$8.6 million in the second quarter, an increase of \$3.3 million, or 63% compared to the second quarter of 2007.

- Incremental expenses from Beeline, including amortization of the acquired intangibles, were approximately \$1.1 million in the quarter, accounting for an increase in operating expenses of 20% relative to the same quarter last year.
- Approximately 40% of the Company's operating expenses are denominated in Canadian dollars. As the Canadian dollar strengthened by approximately 8% from the second quarter of 2007, this accounted for an increase in total operating expenses in US dollar terms of approximately \$0.35 million, or 7% during the quarter.
- Strong corporate performance in 2008 drives the accrual of expected incentive payments under the Company's 2008 incentive plan whereas no accrual was required in 2007 relative to performance at June 30, 2007.

Adjusting for the impact of Beeline operating expenses and the strengthening Canadian dollar, normalized operating expenses increased by about 36%, or \$1.9 million, when compared to the second quarter of 2007. Revenue growth was over 50% during this period, excluding Beeline revenues, demonstrating the scalability of the Company's business model as revenues grow.

Research and development expenses increased by approximately 72%, including Beeline expenses compared to the second quarter of 2007 (44% excluding Beeline operating expenses). The investment in research and development activities is critical for the Company to maintain and build its position in current and targeted markets and the Company is targeting to spend at least 10% on such activities on an annualized basis. During 2007, and in the first half of 2008, the Company has made a number of significant new hires continuing to build the strength of its research and development capabilities. The acquisition of Beeline added approximately 20 engineering employees, greatly strengthening the Company's software engineering capability.

Sales and marketing expenses increased from the second quarter of 2007 by 65%, or \$1.3 million (56% excluding Beeline operating expenses). Increased expenses are related to increased revenues and the related activity levels, expenses arising from the Beeline integration, the stronger Canadian dollar, incentive plan accruals and an increased focus on advertising, marketing and promotion activities.

General and administrative ("G&A") expenses increased by 51% or \$0.7 million in the quarter (37% excluding Beeline operating expenses). As the majority of employees serving G&A functions are in the Calgary, Canada head office location, the impact of the strengthening Canadian dollar on G&A expenses is the greatest for this expense category. The accrual for expected payments under the incentive plan also results in an increase in Q2 expenses relative to 2007.

### ***Other***

In the second quarter of 2008, the Company recorded net interest income of \$92 thousand compared to interest income of \$133 thousand in 2007. The Company earns interest income on its cash balance, offset by interest expense on capital leases.

The Company realized a foreign exchange loss of approximately \$0.3 million during the second quarter of 2008 compared to a loss of \$0.2 million in the corresponding quarter of 2007. Foreign exchange gains and losses arise from a variety of sources, but are driven primarily by the impact of a variable US dollar foreign exchange rate on the translation of US dollar denominated working capital into Canadian dollars (which is the Company's measurement currency). During the quarter, the Canadian dollar strengthened by about 1% from March 31, 2008.

In the second quarter of 2007, the Company incurred \$1.0 million of legal fees associated with a patent infringement lawsuit which was settled in the Company's favor during the third quarter of 2007. No legal fees related to this matter were incurred in 2008 and no further legal expenses related to this matter are anticipated.

### ***Income Taxes***

The Company recorded \$62 thousand of current income tax expense relating to its US operations. US alternative minimum tax ("AMT") is payable on US alternative minimum taxable income, in spite of the availability of tax losses which fully shelter US taxable income for ordinary corporate tax purposes. AMT payable will be fully creditable against future US corporate income taxes, however, at June 30, 2008, no benefit for this potential recovery has been recorded as an asset in these financial statements.

### ***Discontinued Operations***

In the second quarter of 2007, the Company incurred costs of \$111 thousand associated with the divested Wireless activities. There were no significant costs associated with these activities in the second quarter of 2008.

### ***Net Income***

Hemisphere GPS realized net income of \$3.2 million, or \$0.06 per share (basic and diluted) in the second quarter of 2008 compared to \$0.2 million, or \$0.00 per share (basic and diluted) in the second quarter of 2007.

## **Quarter Ended June 30, 2008 versus Quarter Ended March 31, 2008**

### ***Revenue***

Revenue in the second quarter of \$23.0 million was down 11% from revenue of \$25.9 million in the first quarter of 2008. The Company's revenues are seasonal as a result of the significant portion of revenue that is earned from the North American agriculture market. The second quarter is typically lower than the first quarter which is the strongest part of the buying season as farmers prepare for planting. In 2007, second quarter revenue was 19% lower than the first quarter, therefore, the relative performance in the second quarter of 2008 was stronger than in 2007. As outlined earlier in this MD&A, strong grain prices are contributing to increased demand for the Company's agriculture products.

### ***Gross Margin***

Gross margins of \$12.1 million were down from \$13.1 million in the first quarter of 2008 due to the impact of seasonality on revenues. Percentage gross margins of 52.5% were up from 50.5% in the first quarter primarily as a result of pricing increases.

### ***Expenses***

Expenses of \$8.6 million for the three months ended June 30, 2008 increased by \$0.5 million, or 6%, from the first quarter. Increased research and development expenses and the accrual of expected incentive plan payments were the key drivers for this increase.

### ***Other***

Interest income, net of interest expense, of \$92 thousand in the second quarter decreased from \$115 thousand in the first quarter.

The Company realized a foreign exchange loss of \$0.3 million in the second quarter of 2008 versus a gain of \$0.6 million in the first quarter relating primarily to the translation of US dollar denominated working capital. The Canadian dollar strengthened in the second quarter resulting in a loss, whereas it weakened in the first quarter.

### ***Income Taxes***

The Company recorded \$62 thousand of current income tax expense relating to AMT on its US operations, compared to \$114 thousand in the first quarter as a result of a lower net income level.

### ***Net Income (Loss)***

Hemisphere GPS realized net income of \$3.2 million, or \$0.06 per share (basic and diluted) in the second quarter of 2008 compared to net income of \$5.8 million, or \$0.11 per share (basic and diluted) in the first quarter.

### **Six Months Ended June 30, 2008 versus Six Months Ended June 30, 2007**

#### ***Revenue***

Revenue in the six months ended June 30, 2008 of \$49.0 million increased by 57% from revenue of \$31.1 million in the corresponding period of 2007. The increase is a result of strong agriculture-related sales as well as strong sales of the Company's products to non-agriculture markets.

#### ***Gross Margin***

Gross margins of \$25.2 million and 51.4% were up from \$15.0 million and 48.2% in the first half of 2007. Gross margins have improved as a result of new products, pricing programs, the inclusion of software revenues associated with the Beeline acquisition, and the outsourcing of higher-volume components and finished goods to third-party manufacturing overseas. These improvements have been offset to some extent by the strengthening of the Canadian dollar and correspondingly higher cost for Canadian dollar denominated manufacturing costs.

#### ***Expenses***

Operating expenses of \$16.7 million for the six months ended June 30, 2008 have increased by \$5.9 million from the first half of 2007. Operating expenses associated with the Beeline acquisition in December 2007 comprised \$2.2 million of this increase. In addition, other drivers of these increases include higher activity levels associated with increased revenues, the impact of the strengthening Canadian dollar on Canadian dollar denominated expenses and the accrual of expected incentive plan payments in 2008.

#### ***Other***

In the first six months of 2008, the Company realized a foreign exchange gain of \$0.3 million (2007 – loss of \$0.2 million), interest income (net of interest expense) of \$0.2 million (2007 - \$0.2 million) and other income of \$0.3 million (2007 – loss of \$35 thousand).

#### ***Income Taxes***

The Company recorded \$176 thousand of current income tax expense relating to AMT on its US operations. There was no corresponding income tax expense in the first six months of 2007.

#### ***Discontinued Operations***

In the first half of 2007, the Company recorded a loss from discontinued operations of \$0.2 million associated with the divested Wireless activities. There were no significant costs associated with these activities in the first six months of 2008.

#### ***Net Earnings (loss)***

The Company earned net income in the first half of 2008 of \$9.0 million, or \$0.17 per share (basic and diluted), compared to \$2.4 million, or \$0.05 per share (basic and diluted) in the first half of 2007.

## Summary of Quarterly Results

(000's of US dollars)	For the Quarter Ended							
	Sep 30 2006	Dec 31 2006	Mar 31 2007	Jun 30 2007	Sep 30 2007	Dec 31 2007	Mar 31 2008	Jun 30 2008
Sales	\$ 5,010	\$ 6,908	\$ 16,648	\$ 14,473	\$ 9,069	\$ 13,471	\$ 25,909	\$ 23,037
Gross margin	941 19%	2,529 37%	8,247 50%	6,752 47%	4,198 46%	6,079 45%	13,074 50%	12,088 53%
Expenses:								
Research and development	1,012	1,062	1,081	1,181	1,240	1,449	1,804	2,026
Sales and marketing	1,581	2,082	2,638	2,006	1,854	2,741	3,298	3,299
General and administrative	1,062	1,479	1,137	1,440	1,290	1,725	1,965	2,168
Stock-based compensation	192	187	188	168	126	133	128	221
Amortization	568	583	515	511	559	673	928	912
	4,415	5,393	5,559	5,306	5,069	6,721	8,123	8,626
Earnings (loss) before underrated items	(3,474)	(2,864)	2,688	1,446	(871)	(642)	4,951	3,462
Foreign exchange (gain) loss	(119)	(46)	(40)	249	404	27	(594)	323
Interest income	(75)	(24)	(63)	(133)	(100)	(94)	(115)	(92)
Legal fees on settlement	139	33	541	966	1,347	96	–	–
Other income	–	–	–	–	–	–	(263)	–
Loss (gain) on sale of marketable securities	–	(922)	–	35	–	–	–	–
Earnings (loss) from continuing operations before taxes	(3,419)	(1,905)	2,250	329	(2,522)	(671)	5,923	3,232
Current tax expense	–	–	–	–	–	–	114	62
Earnings (loss) from continuing operations	(3,419)	(1,905)	2,250	329	(2,522)	(671)	5,809	3,170
Loss from discontinued operations	(1,765)	(511)	(89)	(111)	(102)	29	–	–
Net earnings (loss)	\$ (5,184)	\$ (2,416)	\$ 2,161	\$ 218	\$ (2,624)	\$ (642)	\$ 5,809	\$ 3,170
Earnings (loss) per common share from continuing operations*:								
Basic	\$ (0.07)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ (0.05)	\$ (0.01)	\$ 0.11	\$ 0.06
Diluted	\$ (0.07)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ (0.05)	\$ (0.01)	\$ 0.11	\$ 0.06
Net earnings (loss) per common share*:								
Basic	\$ (0.11)	\$ (0.05)	\$ 0.05	\$ 0.00	\$ (0.06)	\$ (0.01)	\$ 0.11	\$ 0.06
Diluted	\$ (0.11)	\$ (0.05)	\$ 0.05	\$ 0.00	\$ (0.06)	\$ (0.01)	\$ 0.11	\$ 0.06

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

## **Liquidity and Capital Resources**

Hemisphere GPS held cash of \$21.9 million at the end of the second quarter compared to a balance of \$13.5 million at December 31, 2007 and \$17.4 million at March 31, 2008. The primary items impacting the cash balance during the second quarter were:

- Cash generated from operations, prior to working capital changes, was \$4.3 million compared to \$1.0 million in the second quarter of 2007.
- Accounts receivable and payable were drawn down from first quarter seasonally higher levels.
- Total capital spending in the second quarter of 2008 was \$0.4 million compared to \$0.4 million in 2007. Capital additions include amounts incurred for computer equipment, furniture and fixtures and leasehold improvements.
- During the second quarter, 340,561 stock options were exercised for proceeds of \$0.7 million.
- As of June 30, 2008, there were 56,401,276 common shares outstanding. During the quarter, the Company issued 1,500,028 common shares related to performance warrants issued in connection with the 2005 acquisition of the Outback sales and distribution business assets. There are no further performance warrants outstanding.

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.

During the second quarter, the Company made its final payments on outstanding capital leases. As a result, there are no outstanding capital leases.

## **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.

Effective January 1, 2008, the Company adopted the new accounting standard CICA Handbook Section 3031 – “Inventories”. Prior to the adoption of this standard, the Company’s policies related to inventories were largely consistent with the requirements of the new standard. However, the new standard requires the inclusion of the amortization related to manufacturing activities in the overhead allocated to inventories, which Hemisphere GPS has not done in the past. The Company has adopted this policy retrospectively as of January 1, 2008 as provided for in the standard.

As of January 1, 2008, the Company has also adopted CICA Handbook Section 1535, “Capital Disclosures”, Section 3862, “Financial Instruments – Disclosures”, and Section 3863, “Financial Instruments – Presentation”. The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 and 3862 require additional disclosures regarding the Company’s capital management; financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company may be exposed. The adoption of Section 3863 had no effect on the presentation of the Company’s financial instruments.

## **Update on the Conversion to International Financial Reporting Standards**

The Company has not yet completed the development of a plan for the conversion of its financial statements from Canadian generally accepted accounting principles ("GAAP") to International Financial Reporting Standards ("IFRS") which will be required in its financial reporting for the 2011 fiscal year. This plan will include, among other things, the project structure and governance, resourcing requirements, training plans, analysis of key accounting policy differences, review of the impact on data systems and internal controls, and analysis of the potential for exemption under IFRS 1.

## **Changes in Internal Control over Financial Reporting**

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, 2007.

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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 substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control, including: the impact of general economic conditions; industry conditions; changes in laws and regulations and changes in how they are interpreted and enforced; fluctuations in foreign exchange and interest rates; stock market volatility and market valuations; competition for, among other things, capital and skilled personnel; incorrect assessments of the value of acquisitions; stock market volatility and market valuations and changes in income tax laws. The Company's actual results, performance or achievement could differ materially from those expressed in, or implied by, such forward-looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward-looking statements will transpire or occur or, if any of them do, what benefits the Company will derive from them. Except as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statements.

# HEMISPHERE GPS INC.

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

	June 30, 2008	December 31, 2007
		(note 1)
<b>Assets</b>		
Current assets:		
Cash	\$ 21,856,037	\$ 13,455,779
Accounts receivable	8,410,349	7,128,751
Inventories	14,372,394	15,325,088
Deferred commissions	278,779	262,945
Prepaid expenses and deposits	417,170	637,009
Current assets of discontinued operations	—	398,402
	<u>45,334,729</u>	<u>37,207,974</u>
Deferred commissions	267,403	257,546
Property and equipment	8,195,148	8,200,232
Intangible assets	9,512,684	10,905,247
Goodwill	42,044,794	43,247,897
	<u>\$ 105,354,758</u>	<u>\$ 99,818,896</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,559,908	\$ 8,437,776
Deferred revenue	1,775,886	1,607,063
Current portion of capital leases	—	102,939
Notes payable (note 2)	—	327,963
Current liabilities of discontinued operations	—	58,477
	<u>8,335,794</u>	<u>10,534,218</u>
Deferred revenue	1,780,119	1,716,973
Shareholders' equity:		
Share capital (note 3)	109,449,617	86,592,382
Performance warrants (note 3(d))	—	5,296,681
Contributed surplus	2,588,707	2,685,651
Warrants (note 3(d))	—	16,237,045
Deficit	(31,340,301)	(40,469,714)
Accumulated other comprehensive income	14,540,822	17,225,660
	<u>95,238,845</u>	<u>87,567,705</u>
	<u>\$ 105,354,758</u>	<u>\$ 99,818,896</u>

See accompanying notes to consolidated financial statements.

# 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,	
	2008	2007	2008	2007
Sales	\$ 23,036,767	\$ 14,472,990	\$ 48,945,531	\$ 31,121,045
Cost of sales	10,948,560	7,720,702	23,783,077	16,121,663
Expenses:	12,088,207	6,752,288	25,162,454	14,999,382
Research and development	2,026,017	1,180,707	3,830,408	2,261,590
Sales and marketing	3,299,394	2,006,152	6,597,461	4,645,388
General and administrative	2,168,144	1,439,656	4,133,650	2,576,235
Stock-based compensation (note 3(c))	220,911	168,262	348,791	355,867
Amortization	911,301	511,499	1,839,066	1,026,289
	8,625,767	5,306,276	16,749,376	10,865,369
Earnings before undernoted items	3,462,440	1,446,012	8,413,078	4,134,013
Foreign exchange loss (gain)	322,565	248,914	(271,794)	208,923
Interest income	(92,101)	(133,368)	(207,273)	(196,372)
Legal fees on the settlement of lawsuit	–	966,363	–	1,507,124
Loss on sale of marketable securities	–	35,342	–	35,342
Other income	–	–	(263,036)	–
Earnings before income taxes	3,231,976	328,761	9,155,181	2,578,996
Current income taxes	62,134	–	175,903	–
Earnings from continuing operations	3,169,842	328,761	8,979,278	2,578,996
Loss from discontinued	–	111,242	–	200,769
Net earnings	3,169,842	217,519	8,979,278	2,378,227
Deficit, beginning of period	(34,660,278)	(37,421,085)	(40,469,714)	(39,581,793)
Adjustment due to adoption of new accounting policy (note 1)	150,135	–	150,135	–
Deficit, end of period	\$(31,340,301)	\$(37,203,566)	\$(31,340,301)	\$(37,203,566)
Earnings per common share from continuing operations:				
Basic and diluted	\$ 0.06	\$ 0.01	\$ 0.17	\$ 0.06
Earnings per common share:				
Basic and diluted	\$ 0.06	\$ –	\$ 0.17	\$ 0.05
Weighted average shares outstanding:				
Basic	56,229,439	46,188,924	53,510,557	46,142,078
Diluted	56,921,538	46,537,696	53,976,161	46,311,534

See accompanying notes to consolidated financial statements.

# HEMISPHERE GPS INC.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net earnings	\$ 3,169,842	\$ 217,519	\$ 8,979,278	\$ 2,378,227
Translation of assets and liabilities into U.S. dollars reporting currency	852,977	4,253,491	(2,684,838)	5,106,681
	\$ 4,022,819	\$ 4,471,010	\$ 6,294,440	\$ 7,484,908

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,	
	2008	2007	2008	2007
Cash flows from (used in) operating activities:				
Earnings from continuing operations	\$ 3,169,842	\$ 328,761	\$ 8,979,278	\$ 2,578,996
Items not involving cash:				
Amortization	911,301	511,499	1,839,066	1,026,289
Stock-based compensation	220,911	168,262	348,791	355,867
Loss on sale of marketable securities	—	35,342	—	35,342
	4,302,054	1,043,864	11,167,135	3,996,494
Change in non-cash operating working capital:				
Accounts receivable	2,828,228	199,129	(1,198,888)	(3,480,788)
Inventories	611,800	(553,305)	497,345	(1,171,396)
Prepaid expenses and deposits	86,960	(42,425)	203,158	106,024
Deferred commissions	1,445	(24,910)	(41,882)	(128,538)
Accounts payable and accrued liabilities	(3,643,464)	(968,493)	(1,627,206)	1,703,600
Notes payable	(11,463)	—	(322,680)	—
Deferred revenue	32,615	154,020	336,107	688,305
	4,208,175	(192,120)	9,013,089	1,713,701
Cash used in discontinued operations	—	(483,176)	—	(594,320)
	4,208,175	(675,296)	9,013,089	1,119,381
Cash flows from (used in) financing activities:				
Long-term debt	—	—	—	(256,501)
Capital lease obligations	(50,762)	(74,938)	(101,003)	(116,176)
Issue of share capital, net of share issue costs	675,202	272,486	939,940	282,673
	624,440	197,548	838,937	(90,004)
Cash flows from (used in) investing activities:				
Purchase of property and equipment	(383,061)	(384,378)	(854,530)	(511,686)
Business acquisition, net (note 2)	(92,654)	—	(92,654)	—
Proceeds on sale of marketable securities	—	546,761	—	546,761
	(475,715)	162,383	(947,184)	35,075
Increase (decrease) in cash position	4,356,900	(315,365)	8,904,842	1,064,452
Effect of currency translation on cash balances and cash flows	121,873	922,456	(504,584)	1,047,845
Cash, beginning of period	17,377,264	11,082,487	13,455,779	9,577,281
Cash, end of period	\$ 21,856,037	\$ 11,689,578	\$ 21,856,037	\$ 11,689,578
Supplemental disclosure:				
Interest paid	\$ 7,252	\$ 4,808	\$ 14,435	\$ 23,322

See accompanying notes to consolidated financial statements.

# HEMISPHERE GPS INC.

## Notes to Consolidated Financial Statements

Three and six month periods ended June 30, 2008 and 2007  
(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, 2007, except for the following changes in accounting policies.

As of January 1, 2008, the Company has adopted newly issued accounting standard CICA Handbook Section 3031, “*Inventories*”, relating to the method of accounting for inventory and the related disclosures. The Company had adopted this accounting standard retrospectively, without restatement of prior year results, resulting in a decrease in the opening deficit of \$150,135.

As of January 1, 2008, the Company also adopted CICA Handbook Section 1535, “*Capital Disclosures*”, Section 3862, “*Financial Instruments – Disclosures*”, and Section 3863, “*Financial Instruments – Presentation*”. The new standards have been adopted on a prospective basis with no restatement of prior periods. Section 1535 requires additional disclosures regarding the Company’s capital management (note 6), while Section 3862 addresses financial instruments and the nature, extent and management of risks arising from financial instruments to which the Company may be exposed (note 5). The adoption of Section 3863 had no effect on the presentation of the Company’s financial instruments.

The CICA issued new accounting standards Section 3064 “*Goodwill and Intangible Assets*”, which are applicable for fiscal years beginning on or after October 1, 2008. The Company does not expect any significant effect on its financial statements due to the application of these standards.

The Company has elected to adopt the US dollar as its reporting currency effective January 1, 2008. The Company continues to have a Canadian dollar measurement currency for its consolidated operations.

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

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 14

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

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## 2. Business acquisition:

Beeline Technologies Pty Ltd:

On December 20, 2007, the Company, through a wholly-owned subsidiary incorporated in Australia, completed the acquisition of the shares and outstanding securities of Beeline Technologies Pty Ltd. (“Beeline”). The acquisition has been accounted for using the purchase method and the allocation of the purchase price based on fair values was as follows:

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Current assets	\$ 333,298
Property and equipment	187,755
Intangible assets	7,218,500
Goodwill	14,576,266
Current liabilities	(279,630)
Notes payable	(320,568)
	<hr/>
	\$21,715,621

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Consideration consisted of:

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Cash	\$12,179,432
Common shares issued	8,500,000
Transaction costs	1,036,189
	<hr/>
	\$21,715,621

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# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 15

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

## 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, 2007	48,819,341	\$ 86,592,382
Issued on exercise of stock options	185,746	334,454
Exercise of Special Warrants	5,555,600	17,446,061
Share issue cost	–	(1,278,797)
Transfer from contributed surplus on exercise of stock options	–	148,644
Balance, March 31, 2008	54,560,687	\$103,242,744
Issued on exercise of stock options	340,561	675,206
Exercise of Performance Warrants	1,500,028	5,234,580
Transfer from contributed surplus on exercise of stock options	–	297,087
Balance June 30, 2008	56,401,276	\$109,449,617

### (c) Stock-based compensation:

At June 30, 2008 there were 3,372,847 stock options outstanding. During the current quarter the Company granted 1,127,500 stock options (2007 – 70,000) and recorded \$220,911 as compensation expense (2007 – 168,262). Stock options granted during the current quarter vest over a period of four year and expire in April 2013. For the six months ended June 30, 2008, the Company granted 1,127,500 stock options (2007 – 275,000) and recorded \$348,791 (2007 – \$355,867) as compensation expense.

- (d) On December 27, 2007 the Company closed the bought-deal private placement of 5,555,600 Special Warrants issued at a price of \$3.15 CDN per Special Warrant for total gross proceeds of \$17,446,061. On March 26, 2008, 5,555,600 Common shares were issued and the Special Warrants were cancelled.

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 16

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

### 3. Share capital (continued):

During the quarter, the Company issued 1,500,028 common shares related to Performance warrants issued in connection with the 2005 acquisition of the Outback sales and distribution business assets. There are no further Performance warrants outstanding.

### 4. Segmented information:

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

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

#### Three month period ended

June 30, 2008	Ground Ag	Air	Precision	Shared	Total
Sales	\$18,641,000	\$ 1,406,000	\$ 2,990,000	\$ –	\$ 23,037,000
Contribution (loss)	\$ 8,139,000	\$ 421,000	\$ 880,000	\$ (6,270,000)	\$ 3,170,000

June 30, 2007	Ground Ag	Air	Precision	Shared	Total
Sales	\$ 11,589,000	\$ 1,134,000	\$ 1,750,000	\$ –	\$ 14,473,000
Contribution (loss)	\$ 3,152,000	\$ 253,000	\$ 52,000	\$ (3,128,000)	\$ 329,000

#### Six month period ended

June 30, 2008	Ground Ag	Air	Precision	Shared	Total
Sales	\$ 39,058,000	\$ 4,149,000	\$ 5,739,000	\$ –	\$ 48,946,000
Contribution (loss)	\$ 16,443,000	\$ 1,252,000	\$ 1,727,000	\$ (10,443,000)	\$ 8,979,000

June 30, 2007	Ground Ag	Air	Precision	Shared	Total
Sales	\$ 25,453,000	\$ 2,386,000	\$ 3,282,000	\$ –	\$ 31,121,000
Contribution (loss)	\$ 7,768,000	\$ 609,000	\$ 106,000	\$ (5,904,000)	\$ 2,579,000

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 17

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

## 4. Segmented information (continued):

Sales by geographic segments:

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
United States	\$ 9,349,000	\$ 5,470,000	\$ 25,079,000	\$ 14,462,000
Canada	6,253,000	5,106,000	11,306,000	9,140,000
Europe	2,964,000	1,321,000	5,180,000	3,053,000
Australia	1,741,000	693,000	2,884,000	1,586,000
Other	2,730,000	1,883,000	4,497,000	2,880,000

Assets by geographic segments:

	June 30, 2008	December 31, 2007
United States	\$48,527,000	\$ 45,961,000
Canada	34,537,000	31,658,000
Australia	22,291,000	22,200,000

## 5. Financial Instruments and Financial Risk Management:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments. All capital lease obligations with variable interest rates are assumed to be at fair value and therefore are not revalued.

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

### (a) Credit risk:

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

The Company employs established credit approval and monitoring practices to mitigate this risk, including reviewing the creditworthiness of new customers to establish credit limits, monitoring customer payment performance and, where considered appropriate, reviewing the financial condition of its existing customers and other debtors. The Company establishes an allowance for

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 18

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

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## 5. Financial Instruments and Financial Risk Management (continued):

doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances.

During the six month period ended June 30, 2008, the Company recorded bad debt expense of \$170,000 to reflect accounts that may not be collectible and has a total reserve against accounts receivable totaling \$258,000 for such accounts.

### (b) Interest risk:

The Company is exposed to interest rate risk on cash balances earning interest income and to the extent that it may draw on its operating line of credit or carry other forms of debt which calculate interest as a function of variable interest rates. At June 30, 2008, the Company does not carry material liabilities that are exposed to variable interest rates.

### (c) Liquidity risk:

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

### (d) Foreign exchange risk:

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

- i. Cashflow - the majority of the Company's revenues and a significant portion of its expenses are denominated in US dollars, however certain of its expenses are denominated in Canadian dollars and Australian dollars. Historically, Management has estimated that approximately 65 – 75% of its costs, including cost of sales, are denominated in US dollars.
- ii. Working Capital – The Company has a Canadian dollar functional currency. As a result, the Company is exposed to foreign exchange risk for working capital items denominated in US dollars and Australian dollars. At June 30, 2008, working capital denominated in US dollars was approximately \$27 million. As a result, a 1% weakening of the Canadian dollar will increase foreign exchange by approximately \$280,000 and a 1% strengthening of the Canadian dollar will decrease foreign exchange by approximately \$280,000.

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 19

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

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## 5. Financial Instruments and Financial Risk Management (continued):

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

- i. Cashflow – The Company mitigates its cashflow exposures by incurring costs, where practical, in US dollars to match the currency of the majority of its revenues. The Company has not in the past managed its cashflow foreign currency exposures through the use of financial instruments, however, may enter financial instruments to mitigate this exposure if considered appropriate.
- ii. Working Capital – The Company enters into financial instruments designed to offset the exposure to US dollar denominated working capital. The Board of Directors has approved the execution of financial instruments with a maximum notional value of US\$20 million which have the objective of offsetting the exposure the Company faces by carrying positive US dollar working capital. When considered appropriate, the Company enters financial instruments which are settled for cash using the Bank of Canada noon day rate as the reference foreign exchange rate.

## 6. Capital Management

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

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

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

Where considered appropriate by Management and/or the Board of Directors, the Company may incur and carry long-term debt from time to time as a result of expansion activities, including acquisitions. In December 2007, the Company incurred a bridge financing loan of US\$8 million in order to facilitate the acquisition of Beeline. In keeping with the Company's capital strategy to maintain a low debt to equity ratio, the bank loan was repaid before the end of December 2007 with proceeds from a Special Warrants financing.

# HEMISPHERE GPS INC.

Notes to Consolidated Financial Statements, page 20

Three and six month periods ended June 30, 2008 and 2007  
(unaudited – expressed in U.S. dollars)

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## **7. Seasonality of Operations:**

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

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