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Interviews & News!

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With Over 75% Of Their Business In The Ground Agriculture Area, Hemisphere GPS Looks To Benefit From The Extensive Growth In The Agriculture Sector Anticipated In 2008 And Beyond



Telecomm
GPS
(HEM-TSX)

Hemisphere GPS Inc.

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Steven Koles
President and CEO

BIO:

President and Chief Executive Officer. Prior to joining Hemisphere GPS in September 2006, Steve was most recently Vice President and General Manager at AOL Canada Inc. where he led the Internet Services Business in Canada including the AOL, Netscape, and CompuServe portfolios. Prior to AOL Canada, Steve has also held executive management positions at R4 Manage-

ment Group, Windy Point Capital, Group Telecom, and TELUS Corporation. In addition, he has served on boards and in advisory capacities with such organizations as Route1 Inc., the Canadian Association of Internet Providers, and WUR-Cnet/Netera Alliance. He is a graduate from the Faculty of Management at the University of Alberta, and the Executive Management Program at the University of Western Ontario's Richard Ivey School of Business.

Company Profile:

Hemisphere GPS Inc. designs, develops and manufactures precision commercial and industrial GPS systems for a variety of global markets.

Hemisphere GPS Inc. owns a variety of leading brand names including Satloc, Del Norte, Crescent and Outback. As a technology leader, we hold numerous patents, and other intellectual property.

With corporate headquarters in Calgary, Alberta, we have major product development, operations and marketing facilities in Arizona, Kansas and Texas.

Founded in 1990, and operating as CSI Wireless since 2000, our name was changed in 2007 to Hemisphere GPS to better reflect our focus and strength as a global leader in precision commercial GPS technology.

Our shares are publicly traded on the Toronto Stock Exchange under the symbol "HEM"

Ground Agriculture

Hemisphere GPS Inc. Ground Agriculture products help to minimize costs and maximize yields. Our patented GPS solu-

tions provide sub-meter accuracy and automated control. This reduces the potential for skips or overlaps and enables our customers to operate their farms more efficiently.

Our **Outback** products focus on tractor guidance, mapping, and precision spraying for ground agriculture. All products are easy to operate and simple to understand.

Air Agriculture

Our Air Agriculture group specializes in the design and manufacturing of precision aerial GPS products for farmers, forestry workers, and firefighters. Our Air Agriculture products are used in crop spraying, pest control, forestry and fire fighting.

Precision Products

Our GPS Precision Products line address a wide variety of location-based requirements, including hydrographic surveying, navigation, GIS data collection and mapping, marine dredging, machine control, and other applications that require reliable real-time sub-meter positioning.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Koles, what was your vision when you joined the company just under a year ago and how has that developed?

Mr. Koles: "While Hemisphere is a GPS company, the reality is that we are more focused on application layer type of opportunities. Applications like the integration of GPS guidance and positioning and machine control. Examples include

things like the auto-steering a tractor, the automation of flow control in a crop-dusting airplane environment, or automated heading correction in a marine environment.”

CEOFCO: What else has changed since you have become CEO.

Mr. Koles: “We really have focused on putting more maturity into the business. The organization’s history was one of being quite entrepreneurial and that is great, but what we have been trying to do is build more of a culture around streamlining our operations and focusing on sustained profitability. That includes things like new corporate processes that we have put in place. We have also implemented an ERP system that allows us to more elegantly manage the business from the manufacturing perspective, and drive supply chain strategies to drill into the areas required to improve and sustain long-term profitability.”

CEOFCO: Who are your typical customers and what are you actually selling them in the way of products and services?

Mr. Koles: “A great example is in North American agriculture. We are very successful in the segment of customers that would be mid-market crop producers like corn, wheat, and soybeans. What we provide is an increase in efficiency for their operations that helps them manage or increase their yield as well as reduce their cost as it relates to input costs like fuel, seed, and fertilizer. More compelling than that to the typical farmer, however, is the auto-steering application for tractors where the value proposition is the elimination of driver fatigue and stress, such that the producer can actually work much longer hours. As it relates to bringing in the harvest at the end of the year, they can do so in a much shorter window of time because they can work longer hours and through the evening.”

CEOFCO: What about driver fatigue?

Mr. Koles: “Our eDrive auto-steering product eliminates driver fatigue because the farmer does not have to steer the vehicle anymore. Instead, their tractors are being steered by our automated hydraulic

steering kit solution. This can drive straight lines across the fields, and can also accommodate contour passes or circle pivot types of guidance, and even take into account compensation for machinery tilt as a farmer might be driving up and down a hill in their environment.”

CEOFCO: Tell us about the new technology that you have launched.

Mr. Koles: “We have recently launched a new technology that provides greater accuracies than that have been provided in the market place at the type of price that is affordable for a farmer. To be more specific, we have provided a new local differential technology using a single frequency Real-Time Kinematic, or RTK, software technology that we have developed. It is quite revolutionary in that it provides sub inch types of accuracies at half the type of price of our competitors using dual frequency systems today.”

“Hemisphere GPS, is the market leader with very significant growth potential in the areas of agriculture, air, and marine. We are well positioned with our existing and new products and market disruptive technologies we are bringing to market. We also have very strong scaleable financial business model and projections of 20% growth in 2007.” - Steven Koles

CEOFCO: Has this been around for a while?

Mr. Koles: “It is very new for the agriculture industry. The penetration rates for basic use of GPS in agriculture are about 20% in North America and much lower internationally. More importantly, auto steering penetration in North America would be less than 5% and essentially zero internationally.”

CEOFCO: How do you encourage the farmers’ interest?

Mr. Koles: “One of our most compelling marketing activities is what we call the “Ride and Drive” event. We have one of our local dealers invite the farmers in the area to a demo day where we have our equipment installed on a vehicle in a field to allow training, and education and ultimately allow the customer to experience GPS guidance and auto steering. For a farmer who has been using traditional

techniques for a number of years, it is very compelling from a value proposition perspective to be able to let go of the steering wheel and have trust in it that it is going to drive the type of pattern that you are use to in your field.”

CEOFCO: Is it an outright purchase and what are you providing exactly?

Mr. Koles: “Yes, the farmer purchases our products outright. The Outback S2 is our lead product. It provides what we call light bar guidance, which informs the operator, who is still manually steering at this point, to turn right or left. Pricing for the S2 is around \$2800. The eDrive auto steering kit, which will take guidance input from the Outback S2 unit, is another \$4,000. We also offer a number of other products and accessories in the Outback line, an extended service program and we are about to launch a financing program to provide customers with the option to finance product purchases.”

CEOFCO: That does not sound overly expensive given what it can do!

Mr. Koles: “We believe that the payback on such a purchase is essentially one season.”

CEOFCO: Is this patented technology?

Mr. Koles: “We have approximately thirty patents or patents pending based on core GPS technology, agricultural guidance and other applications.”

CEOFCO: What happens if something happens to one of the satellites?

Mr. Koles: “At any given time, a GPS receiver can see a number of satellites and only a few are actually required to provide an accurate position. We also have technology capabilities in our products to maintain accurate operation for a period of time when satellite signals are impaired. In addition to the GPS satellites, there are a number of new satellite systems that are being operated in a variety of different environments to improve the accuracy of GPS signals. The Federal Aviation Agency operates the Wide Area Augmentation Service satellites here in North America. Other jurisdictions have their own similar capabilities so what that

does is provide error corrections to GPS receivers enabling increased accuracy levels for GPS applications that require higher levels of accuracy. Another point to take into consideration is that other jurisdictions are also putting up their own full constellation of navigation satellites like the American GPS system. Russia has been working on GLONASS for some time, and Europe is working on Galileo.”

CEO CFO: Are you strictly in North America at this point?

Mr. Koles: “We provide our solutions worldwide. We are getting a tremendous amount of growth in places like Europe and in the southern hemisphere like Australia, Brazil and Argentina.”

CEO CFO: Do you have offices there?

Mr. Koles: “We have distribution partners. We only have offices in Canada and the US.”

CEO CFO: What is the financial position of the company?

Mr. Koles: “We have a strong balance sheet and no debt. We have just under \$13 million in cash and about \$26 million in overall working capital. As we transitioned the business into our pure-play GPS strategy, we have provided guidance of 20% growth in revenues this year and a return to profitability. We are looking forward to continued growth in 2008 and beyond given the healthy growth of the agriculture sector.”

CEO CFO: What percentage of your business is in agriculture?

Mr. Koles: “About 75% of our business is in our ground agriculture area; about 10% is made up of our air agriculture business and about 15% in what we call our precision products business - which are sold primarily into marine and GIS markets.”

CEO CFO: Do you see that changing, and are there new areas you would like to look into?

Mr. Koles: “We are looking into expansion opportunities. Some of which will be more sub-vertical markets as extensions to where we compete today. I mentioned our air business is really about crop-dusting today, but we are also looking at

moving into forestry and fire control applications. We are also looking at bringing on a fourth vertical market and we are doing analysis right now, as to what that market will be. There is really no shortage of GPS opportunities from an industrial applications perspective. Our goal is to remain as focused as possible, but even with that strategy we believe we have appetite for a fourth vertical market where we can command as much opportunity as we do in precision agriculture.”

CEO CFO: Do you manufacture the product or have an inventory?

Mr. Koles: “All of our products are manufactured in our facility in Calgary, with higher volume elements of the products being manufactured offshore. We keep a healthy level of inventory of finished products available for quick turn-around sales opportunities. In the example of our agricultural area, we use an e-commerce transaction-processing engine, so that orders that come in the morning at any given day can typically be shipping by that afternoon. It is very much a “just-in-time” distribution and inventory model.”

CEO CFO: Does the system require much training?

Mr. Koles: “Simplicity is a important feature of our Outback product line. The end user feedback that we have received from our customers is that the products are very easy to install and very easy to use.”

CEO CFO: What challenges do you face ahead?

Mr. Koles: The biggest risk that we have given our exposure in agricultural is the health of the overall agricultural economy and Mother Nature. Because of a 30-year low inventories on corn and wheat in North American, we have seen a limited ability of our customers to generate cash flow at the time when the cost of seed, fertilizer and gas have gone up significantly this growing season. However, we are positioned quite well as this situation reverses itself this fall, when harvests come; which for crops like corn and wheat are forecasted to be very healthy. As these crops are harvested, we believe there will be a return to very good cash

flow for our farmer customers. By looking to expand into new vertical markets we intend to buffer some of our exposure in the variability of the agriculture sector.”

CEO CFO: Why should potential investors be interested and what does not jump off the page when they first look at Hemisphere GPS?

Mr. Koles: “One of the things we get asked a lot is on the auto steering in agriculture and whether or not these are robotic tractors. There is the assumption that farmers are sitting on their porch and not actually, in the vehicle, which is definitely not the case. The other inaccuracy we often hear with the media momentum behind biofuels, is the assumption that farmers are rich. While forecasts are for much healthier levels of discretionary income, this year’s harvest must occur first. Investors should be interested in Hemisphere GPS as we have a strong scaleable financial business model and great growth opportunities in front of us. As a result, we represent valuation upside vs. our competitors.”

CEO CFO: Has the investment community been paying attention?

Mr. Koles: “I think we have certainly seen a change of our shareholder base as we have transitioned the business from what was CSI Wireless into a focused GPS pure-play strategy with Hemisphere GPS. That transition has changed our investor profile from being a more exclusively Canadian-held stock to our investor base now being much more balanced in the US.”

CEO CFO: What should people remember about Hemisphere GPS?

Mr. Koles: “Hemisphere GPS, is the market leader with very significant growth potential in the areas of agriculture, air, and marine. We are well positioned with our existing and new products and market disruptive technologies we are bringing to market. We also have very strong scaleable financial business model and projections of 20% growth in 2007.”



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