



Quarterly Consolidated Financial Statements

March 31, 2008

(in thousands of Canadian dollars)

Vector Aerospace Corporation

Consolidated Balance Sheets (Unaudited)

As at March 31, 2008 and December 31, 2007 (in thousands of Canadian dollars)

	March 31 2008	December 31 2007
Assets (Note 4)		
Current Assets		
Receivables	\$ 66,246	\$ 59,595
Work in progress	33,361	27,028
Inventory	68,181	64,323
Prepaid expenses	2,063	1,700
Income tax receivable	202	781
Future income tax asset	53	57
	170,106	153,484
Fixed assets	94,526	90,268
Goodwill (Note 3)	7,483	7,483
License fees (Note 3)	7,084	7,598
Other assets (Note 3)	4,087	4,589
	\$ 283,286	\$ 263,422
Liabilities and Shareholders' Equity		
Current Liabilities		
Bank indebtedness (Note 4)	\$ 7,379	\$ 22,400
Payables and accruals	56,124	49,332
Income tax payable	199	91
Deferred revenue	5,356	7,058
Current portion of long-term debt (Note 4)	6,422	6,790
	75,480	85,671
Long-term debt (Note 4)	66,989	40,914
Other credits (Note 5)	21,664	22,491
Shareholders' equity	119,153	114,346
	\$ 283,286	\$ 263,422

Commitments and contingencies (Note 14)

See accompanying notes to consolidated financial statements

On behalf of the Board

<Signed by> Director

<Signed by>

Vector Aerospace Corporation

Consolidated Statements of Operations (Unaudited)

For the Three Months Ended March 31 (in thousands of Canadian dollars except per share amounts)

	Three Months	
	2008	2007
Revenue	\$ 84,572	\$ 83,101
Cost of sales	61,571	60,987
Sales, general and administration	13,866	14,079
Amortization	1,948	2,004
Earnings from operations before unusual items	7,187	6,031
Unusual items (Note 9)	-	626
Earnings from operations	7,187	5,405
Interest expense (Note 4)	1,715	1,206
Earnings before income taxes	5,472	4,199
Income tax expense		
Current	840	904
Future	840	109
	1,680	1,013
Net earnings	\$ 3,792	\$ 3,186
Net earnings per share (Note 8)		
Basic	\$ 0.10	\$ 0.09
Diluted	\$ 0.10	\$ 0.08

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Consolidated Statements of Shareholders' Equity (Unaudited)

For the Three Months Ended March 31 (in thousands of Canadian dollars)

	2008	2007
Retained earnings, beginning of period	\$ 13,112	\$ 1,009
Net earnings	3,792	3,186
Retained earnings, end of period	16,904	4,195
Capital stock (Note 6)	110,283	109,493
Employee stock purchase loans (Note 6)	(565)	(1,182)
Accumulated other comprehensive loss (Note 7)	(7,469)	(4,320)
Total shareholders' equity	\$ 119,153	\$ 108,186

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Unaudited)

For the Three Months Ended March 31 (in thousands of Canadian dollars)

	2008	2007
Net earnings	\$ 3,792	\$ 3,186
Other comprehensive income (loss):		
Unrealized currency translation gain (loss) on self-sustaining foreign operations	1,205	(304)
Unrealized loss on interest rate swaps	(568)	(164)
Tax on unrealized loss on interest rate swaps	194	56
Other comprehensive income (loss)	831	(412)
Comprehensive income	\$ 4,623	\$ 2,774

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Consolidated Statements of Cash Flows (Unaudited)

For the Three Months Ended March 31 (in thousands of Canadian dollars)

	Three Months	
	2008	2007
Source (use) of cash		
Operating activities		
Net earnings	\$ 3,792	\$ 3,186
Items not involving cash		
Amortization	1,948	2,004
Gain on disposal of assets	(134)	(49)
Future income tax	840	109
Stock-based compensation	141	247
Defined benefit pension plan	402	430
Cash flow from operations	6,989	5,927
Change in non-cash working capital (Note 10)	(10,768)	(8,462)
Cash used in operating activities	(3,779)	(2,535)
Investing activities		
Additions to fixed assets	(1,770)	(1,294)
Proceeds from the disposal of fixed assets	16	-
Rental and spare engines, net	(2,788)	(1,783)
Licences	-	26
Additions to deferred charges	(1,617)	-
Other	(87)	126
Cash used in investing activities	(6,246)	(2,925)
Financing activities		
Change in bank indebtedness (Note 4)	(15,557)	4,829
Issuance of long-term debt	27,426	1,383
Repayment of long-term debt	(1,901)	(1,236)
Capital stock issuances (Note 6)	43	301
Government grants	-	281
Cash provided by financing activities	10,011	5,558
Effect of change in exchange rates	14	(98)
Change in cash, and balance, beginning and end of period	\$ -	\$ -
Supplemental cash flow information		
Interest paid	\$ 1,400	\$ 1,267
Income taxes paid	\$ 396	\$ 3,185

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

1. Basis of presentation

Vector Aerospace Corporation ("Vector" or "the Company") is a global provider of aviation maintenance, repair, and overhaul services for fixed-wing and rotary-wing aircraft gas turbine engines, helicopter dynamic components and helicopter airframes. The Company has repair and overhaul facilities in Canada, the United States, the United Kingdom and Africa serving both commercial and military markets. These unaudited consolidated interim financial statements ("Statements") have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with respect to the preparation of interim financial information. Accordingly, they do not include all disclosures required in the preparation of annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2007. The accounting policies used in the preparation of these Statements are consistent with those described in the Company's audited consolidated financial statements for the year ended December 31, 2007, prepared in accordance with GAAP, except as disclosed in Note 2.

2. Accounting changes

Capital disclosures

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1535, "Capital Disclosures". The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. As a result of implementing this standard, the Company has included the additional disclosure in Note 12 to the financial statements.

Financial instruments – disclosure and presentation

On January 1, 2008, the Company adopted the CICA Handbook Sections 3862, "Financial Instruments – Disclosure" and 3863, "Financial Instruments – Presentation". These sections replace existing Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". Section 3862 requires disclosure by class of financial instruments that enables users to evaluate the significance of financial instruments for the Company's financial position and performance. Disclosures are also required of qualitative and quantitative information that enable users of financial statements to evaluate the nature and extent of the Company's exposure to the risks arising from financial instruments, specifically credit risks, liquidity risks and market risks and how the Company manages those risks. As a result of implementing this standard, the Company has included additional disclosure in Note 13 to the financial statements. Section 3863 carries forward the presentation requirements of Section 3861 already adopted by the Company. As a result, the adoption of this Section had no impact on the financial statements.

Inventories

On January 1, 2008, the Company adopted CICA Handbook Section 3031, "Inventories", which has replaced Section 3030 with the same title. The new section establishes that inventory should be measured at the lower of cost and net realizable value, with guidance on the determination of cost. The adoption of this Section had no impact on the financial statements.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

3. Goodwill, licence fees and other assets

	March 31 2008	December 31 2007
Goodwill , less accumulated amortization of \$1,274,000 (2007 – \$1,274,000)	\$ 7,483	\$ 7,483
License fees , less accumulated amortization of \$21,498,000 (2007 – \$20,588,000)	\$ 7,084	\$ 7,598
Other assets:		
Pre-operating expenses, less accumulated amortization of \$1,825,000 (2007 – \$1,754,000)	\$ 759	\$ 618
Future income tax asset	36	1,742
Funds held in trust	538	533
Deferred charges and other, less accumulated amortization of \$2,583,000 (2007 – \$2,301,000)	2,754	1,696
	\$ 4,087	\$ 4,589

Based on the ongoing evaluation of the fair value of goodwill completed during 2007 the Company determined that no write-down was required.

Amortization expense related to other assets during the quarter was \$817,000 (2007 – \$749,000).

In late 2003, the previous Board of Directors authorized the Company to deposit \$500,000 with a trustee for the payment of potential future legal and related expenses which may be incurred by the previous Board members. This deposit is included in the litigation settlement as more fully described in Note 15(b).

4. Bank indebtedness

	March 31 2008	December 31 2007
Bank indebtedness		
Canadian dollar (BA + 1.30%)	\$ 17,542	\$ 8,290
Canadian dollar – Restricted cash (LIBOR + 1.50%)	(25,000)	–
Pound Sterling (Base rate + 1.25%) (March 31, 2008 – £7,270,000; December 31, 2007 – £7,029,000)	14,837	14,110
	\$ 7,379	\$ 22,400

Restricted cash of \$25,000,000 relates to funds received through existing credit facilities and held in trust for the purpose of financing a portion of the UK acquisition as more described in note 15(a).

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

4. Bank indebtedness (cont'd)

Long-term debt				March 31	December 31
Interest rates	Principal payment frequency	Maturity		2008	2007
North American financial institutions					
LIBOR + 1.50%	Quarterly	March 2012	\$	13,897	\$ 15,634
LIBOR + 1.50%	Quarterly	March 2011		25,000	-
North American – other					
7.18%	Annually	August 2010		13,000	13,000
Prime + 1.0%	Semi-annually	June 2015		11,994	10,100
0% to 7.24 %	Monthly	May 2013		5,306	4,529
UK financial institutions					
Base rate + 1.0%	Quarterly	May 2008		31	814
Base rate + 1.25%	Quarterly	July 2011		4,183	3,627
Total long-term debt				73,411	47,704
Less: current portion				6,422	6,790
				\$ 66,989	\$ 40,914

Collateral

As collateral for the North American financial institutions' lending facilities, the Company has provided a general security agreement creating a first ranking mortgage security interest over certain fixed assets and a general assignment of specified receivables and inventory with a total net book value of approximately \$200,241,000.

As collateral for the Pounds Sterling bank indebtedness, the Base rate + 1.0% term loan and the Base rate + 1.25% term loan, the Company has provided a charge over specific freehold property and a floating-charge debenture over specified assets with a total net book value of \$45,900,000.

As collateral for the 7.18% and prime + 1.0% term loans the Company has provided first ranking security interest over certain inventory and rental engines with a net book value of \$58,117,000. Included in the 0% to 7.24% term loans are unsecured facilities of \$1,965,000.

As collateral for the 0% to 7.24% term loans the Company has provided first ranking security interest over certain assets with a total net book value of \$6,644,000.

Under the North American and UK bank credit facilities, the Company is subject to certain financial covenants including limitation on the Company's ability to increase indebtedness, create liens, make capital expenditures, engage in mergers or acquisitions, sell assets, transfer funds and make dividend payments.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

4. Bank indebtedness (cont'd)

Foreign currency denominated debt

Outstanding debt held in Pounds Sterling amounted to \$4,214,000, equivalent to £2,065,000 (December 31, 2007 – \$4,441,000, equivalent to £2,265,000)

	Three Months Ended March 31	
	2008	2007
Interest expense		
Interest on short-term debt	\$ 863	\$ 232
Interest on long-term debt	852	974
	\$ 1,715	\$ 1,206

Long-term debt provided by North American and UK financial institutions has been issued at floating rates of interest and is therefore subject to risks associated with fluctuating interest rates. The Company has entered into an interest rate swap transaction (the "Swap Transaction") on its North American financial institution debt with a Canadian chartered bank as outlined below.

The Company has in place two interest rate swap agreements to exchange \$20,000,000 and USD \$17,000,000 of its variable interest rate bank indebtedness to fixed interest rates. These swap agreements were entered into on January 4, 2007 and are due to expire on November 30, 2009. The Company will exchange the three-month bankers' acceptance ("BA") floating interest rate for a fixed interest rate of 4.33% and the three-month LIBOR floating interest rate for a fixed interest rate of 5.37% respectively during the term of the agreements. The Company will continue to pay the spread over BA on its long-term loans as set by the lending institutions from time-to-time.

The difference between the fixed and floating rates is settled quarterly with the bank and is recorded as an increase or decrease to interest expense. The fair value of the interest rate swap agreement at March 31, 2008 is a net payable of \$1,314,000 (December 31, 2007 – payable of \$551,000) which qualifies for hedge accounting and has been recorded as a liability in payables and accruals. The ineffective portion of the hedge has been recorded as an increase in interest expense and the balance has been recorded in other comprehensive loss.

At March 31, 2008 the Company had in place short-term lines of credit totalling \$54,490,000 (December 31, 2007 – \$53,520,000) and long-term debt of \$73,411,000 (December 31, 2007 – \$47,704,000). The Company's operating facilities in North America and the UK are each subject to a borrowing base calculation that restricts borrowing amounts based on percentages of inventory and certain accounts receivable. Each of the North American and UK operating credit facilities borrowing base varies on a monthly basis. Borrowings under the operating facility were \$32,379,000 in aggregate at March 31, 2008 (December 31, 2007 – \$22,400,000). In addition, the Company had outstanding letters of credit of \$2,252,000 at March 31, 2008 (December 31, 2007 – \$2,153,000). At March 31, 2008, the Company had unused, available operating credit facilities of approximately \$12,357,000 (December 31, 2007 – \$21,346,000) in North America and \$7,502,000 (equivalent to £3,676,000) (December 31, 2007 – \$7,621,000, equivalent to £3,888,000) in the UK after taking into account the borrowing base calculation.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

5. Other credits

	March 31 2008	December 31 2007
Deferred government assistance, less accumulated amortization of \$12,832,000 (2007 – \$12,633,000)	\$ 6,479	\$ 6,678
Accrued defined benefit pension liability	10,611	10,013
Future income tax liability	4,574	5,800
	\$ 21,664	\$ 22,491

Amortization related to deferred government assistance during the quarter was \$155,000 (2007 – \$179,000).

Employee future benefit (pension) expense during the quarter was \$255,000 (2007 – \$570,000).

Government grants received during the quarter amounted to nil (2007 – \$281,000).

6. Capital stock

Authorized:

The Company is authorized to issue an unlimited number of first and second preferred shares, issuable in series, and an unlimited number of common shares without par value. No preferred shares have been issued. At March 31, 2008 the change in issued common shares was as follows:

	Three months ended March 31, 2008		Year ended December 31, 2007	
	Stated Number	Capital	Stated Number	Capital
Balance, beginning of period	37,639	\$ 110,099	37,447	\$ 108,945
Issuance of shares from treasury	2	4	176	460
Shares issued to employees for cash under share purchase plan	9	39	16	74
Stock-based compensation	–	141	–	620
Balance, end of period	37,650	\$ 110,283	37,639	\$ 110,099

On March 27, 2006 the Company announced the adoption of a Shareholder Rights Plan. The Rights Plan is designed to encourage the fair treatment of shareholders in connection with any proposed take-over bid and to provide the Board of Directors with time to consider any unsolicited take-over bid and pursue, if appropriate, other value enhancing alternatives to allow the Company's shareholders to receive full and fair value for the Company's common shares.

Under the Company's stock option plan, the Company may grant options to certain officers, directors and employees for up to 2,750,000 common shares of which 908,700 are available at March 31, 2008. In the first three months of 2008, 282,100 stock options were granted (2007 – nil). No options expired in the first three months of 2008 (2007 – 70,000). There were 2,000 (2007 – 122,000) options exercised during the first three months of 2008 at a weighted average exercise price of \$2.00 (2007 – \$2.35).

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

6. Capital stock (cont')

At March 31, 2008, the Company had 1,434,000 (December 31, 2007 – 1,153,900) options outstanding at a weighted average exercise price of \$3.96 (December 31, 2007 – \$3.91) with expiry dates ranging between 2008 and 2016 (December 31, 2007 – 2008 to 2016). Options may be exercised within a period of ten years from the date of granting of the options, with the exception of the August 2007 grant which may be exercised within a period of seven years, at exercise prices equal to the market price of the Company's stock on the date of grant.

Stock-based compensation expense related to vesting options was \$141,000 for the quarter (2007 – \$247,000). The fair value of the options is calculated using the Black-Scholes Option Pricing Model assuming an expected life of two to six and one quarter years, a risk free interest rate between 2.25% and 4.38%, a dividend yield of 0%, and volatility ranging from 25% to 52.6%.

The following summarizes information about stock options outstanding at March 31, 2008:

Exercise Prices	Number Granted (Thousands)	Remaining Contractual Life in Years	Number Vested (Thousands)
\$ 2.00	135.0	7	135.0
\$ 2.04	100.0	7	100.0
\$ 2.31	250.0	7	250.0
\$ 3.70	15.5	3	15.5
\$ 4.15	280.1	8	99.2
\$ 4.22	230.0	8	206.0
\$ 4.25	2.0	8	–
\$ 4.25	123.6	9	24.7
\$ 5.15	15.0	4	15.0
\$ 5.60	197.8	7	96.8
\$ 8.10	15.0	4	15.0
\$ 8.50	70.0	3	70.0
	1,434.0		1,027.2

Non-interest bearing stock purchase loans to employees are full recourse under most circumstances, have as collateral a pledge of the related shares purchased and other security, and are required to be repaid over a maximum of ten years. The market value of shares and other collateral pledged as security for these loans at March 31, 2008 was approximately \$576,000. These loans are included in the litigation settlement as more fully described in Note 15(b).

The Company has also reserved 1,430,000 common shares under an employee share purchase plan.

7. Accumulated other comprehensive income (loss)

	March 31 2008	March 31 2007
Balance, beginning of period	\$ (8,300)	\$ (3,908)
Other comprehensive income (loss)	831	(412)
Balance, end of period	\$ (7,469)	\$ (4,320)

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

7. Accumulated other comprehensive loss (cont'd)

Quarter-end exchange rates

The exchange rates used to translate balance sheet accounts of self-sustaining foreign operations to Canadian dollars are as follows:

	March 31 2008	December 31 2007
US Dollars	1.03	0.99
UK Pounds Sterling	2.04	1.96

Foreign exchange gains included in net earnings for the three months ended March 31, 2008 were \$746,000 (2007 – \$190,000).

8. Per share information

The weighted average common shares used in the calculation of basic and diluted earnings per share, was calculated as follows:

	Three Months	
	2008	2007
Weighted average number of common shares outstanding – basic	37,517	37,224
Effect of shares used as security for share purchase loans	128	247
Effect of dilutive options	224	388
Weighted average number of common shares outstanding – diluted	37,869	37,859

9. Unusual items

During the first quarter of 2007, Sigma Aerospace conducted a rationalization of its staff resulting in overhead reductions and process efficiencies. Costs calculated as being the amount of severance due to the staff on termination amounted to \$626,000, which was recorded as an unusual expense. The severance costs related to severance benefits payable in accordance with the terms of the Company's collective agreement with the union and UK statutory obligations under labour law.

10. Change in non-cash working capital

	Three Months	
	2008	2007
Receivables	\$ (5,949)	\$ 4,645
Work in progress	(5,978)	(2,217)
Inventory	(3,475)	(5,713)
Prepaid expenses	(331)	(347)
Income tax receivable	574	55
Payables and accruals	5,999	(2,900)
Income tax payable	112	(2,094)
Deferred revenue	(1,720)	109
Net change in non-cash working capital	\$ (10,768)	\$ (8,462)

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

11. Segmented information

The Company provides services through two business segments, fixed-wing and helicopter. The segments derive revenue principally from providing repair and overhaul services on gas turbine engines, components and helicopter airframes. The Company evaluates business segment performance based on earnings before any unusual items.

The fixed-wing segment includes Atlantic Turbines International ("ATI") operating in Summerside, Prince Edward Island and the United States and Sigma Aerospace ("Sigma") operating in Croydon and Pyestock, United Kingdom. The helicopter segment includes Vector Aerospace Helicopter Inc. ("VAHS") operating in Richmond and Langley, British Columbia and Vector Aerospace Helicopter Services USA, Inc. operating in Andalusia, Alabama.

Both segments have smaller regional service facilities and sales and marketing representation in various locations throughout the world.

Three Months Ended March 31, 2008

	Fixed-Wing	Helicopter	Corporate and other	Total
Revenue from external customers	\$ 50,934	\$ 33,638	\$ -	\$ 84,572
Earnings from operations before amortization and unusual items	\$ 7,049	\$ 2,990	\$ (904)	\$ 9,135
Amortization	1,192	715	41	1,948
Earnings from operations	\$ 5,857	\$ 2,275	\$ (945)	\$ 7,187
Capital expenditures	\$ 197	\$ 1,118	\$ 455	\$ 1,770

Three Months Ended March 31, 2007

	Fixed-Wing	Helicopter	Corporate and other	Total
Revenue from external customers	\$ 50,447	\$ 32,654	\$ -	\$ 83,101
Earnings from operations before amortization and unusual items	\$ 6,081	\$ 3,411	\$ (1,457)	\$ 8,035
Amortization	1,252	705	47	2,004
Earnings from operations	\$ 4,829	\$ 2,706	\$ (1,504)	\$ 6,031
Capital expenditures	\$ 501	\$ 574	\$ 219	\$ 1,294

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

11. Segmented information (cont'd)

Geographic information – Revenue	Three Months	
	2008	2007
North America		
Canada	\$ 21,207	\$ 12,405
United States	27,998	40,418
Europe		
United Kingdom	8,624	8,341
Other European countries	8,050	6,661
Africa	4,012	6,739
Asia	3,025	3,629
Central and South America	2,193	2,677
Middle East	7,848	701
Other countries	1,615	1,530
	\$ 84,572	\$ 83,101

Revenues are attributed to countries based on location of customers.

The Company provides services to many customers across different geographic areas. No customer accounts for more than 10% of the Company's revenue.

Geographic information – Fixed assets (net book value)	March 31	December
	2008	31 2007
Canada	\$ 71,731	\$ 67,763
United States	2,569	2,511
United Kingdom	19,262	19,263
Other countries	964	731
	\$ 94,526	\$ 90,268

Revenue by category	Three Months Ended March 31	
	2008	2007
Gas Turbine Engines	\$ 67,531	\$ 67,441
Components	11,547	9,580
Helicopter Airframes	5,494	6,080
	\$ 84,572	\$ 83,101

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

12. Capital management

The Company defines capital that it manages as the aggregate of its shareholders equity and interest bearing debt. The primary objectives of the Company's capital management are to ensure it maintains a strong credit rating and favourable borrowing covenants in order to support its business and to provide returns to shareholders and benefits to other stakeholders.

The Company manages its capital structure in a manner to ensure that certain covenants comply with the requirements specified within the North American and UK bank credit agreements.

In North America, the Company monitors the secured and total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratio as well as EBITDA to interest expense and to debt service. EBITDA is calculated as total revenue less cost of sales less sales, general and administration expenses. In addition to the EBITDA ratios mentioned, debt facilities are also monitored based on a ratio of current assets to current liabilities as well as a capital expenditure limitation. These covenant tests are conducted on a quarterly basis. The secured debt to EBITDA ratio must not exceed 2.75; total debt to EBITDA ratio must not exceed 3.0; EBITDA to interest expense ratio must exceed 3.0; EBITDA to debt service ratio must exceed 1.4; current assets to current liabilities ratio must exceed 1.5; and capital expenditures must not exceed \$15,000,000 annually. The Company was in compliance with all covenants at March 31, 2008 and December 31, 2007.

In the UK, the Company monitors net worth, senior interest and asset coverage ratios on a quarterly basis. The net worth ratio must exceed £5,000,000, the asset coverage ratio, which includes certain specified assets and liabilities, must exceed a ratio of 1.50; and the senior interest coverage ratio must exceed a ratio of 2.25. The Company was in compliance with all covenants at March 31, 2008 and December 31, 2007.

13. Financial instruments

Risk management

The Company's earnings and cash flow may be negatively impacted by fluctuations in interest and foreign currency exchange rates. The Company maintains a policy of mitigating the risks associated with interest rate fluctuations through the use of interest rate swaps on variable rate debt and foreign currency exchange rate fluctuations through the use of foreign currency forward contracts which match the timing of cash flow requirements.

Derivative financial instruments entered into by the Company are subject to standard credit terms and conditions, financial controls, and risk monitoring procedures. The Company does not hold or issue derivative financial instruments for speculative or trading purposes.

a) Market risk

Interest rate exposures

The North American banking facilities are issued at floating rates of interest and are therefore subject to risks associated with fluctuating interest rates. The Company has entered into, for hedging purposes, two interest rate swap transactions — one designed to cover Canadian dollar variable rate debt and the other to cover U.S. dollar variable rate debt. The fair values of these instruments are recorded on the consolidated balance sheet and the change in value is reflected in other comprehensive loss, net of income taxes. Both swap transactions were issued through a Canadian chartered bank and expire on November 30, 2009.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

13. Financial instruments (cont'd)

The Canadian dollar swap transaction involves the exchange of the underlying three month BA rate for a fixed rate of 4.33%. The notional amount of this swap transaction is \$20,000,000, which remains fixed throughout its term. The fair value of this swap transaction, which at March 31, 2008 was \$(384,000) (December 31, 2007 – \$(52,000)), is recorded on the balance sheet in payables and accruals.

The U.S. dollar swap transaction involves the exchange of the underlying three month LIBOR rate for a fixed rate of 5.37%. The notional amount of this swap transaction is USD\$17,000,000, which remains fixed throughout its term. The fair value of this swap transaction, which at March 31, 2008 was USD\$(905,000) (December 31, 2007 – USD\$(505,000)), is recorded on the balance sheet in payables and accruals.

The amount of remaining Canadian dollar variable rate debt was \$38,744,000 and the remaining U.S. dollar debt was nil during the three months ended March 31, 2008. If the BA rate was to increase by 1%, the Company's earnings before income tax for the three months ended March 31, 2008 would be reduced by approximately \$97,000.

Foreign currency exposures

The Company operates internationally and is therefore exposed to market risks related to foreign currency exchange rate fluctuations. Such exposure arises from revenues and expenditures in currencies other than Canadian dollars. Approximately 88% of the Company's revenues and 69% of the expenditures are denominated in currencies other than Canadian dollars. The Company benefits from a natural foreign currency hedge through partial matching of currency inflows and outflows inherent within the operations, however the Company utilizes foreign currency forward contracts to cover the excess net U.S. dollar inflow. Based on operational forecasts, net U.S. dollar inflows are sold with settlement occurring three months from the date of transaction. The settlement term is based on an approximate average transaction cycle.

b) Credit risk

The Company is exposed to credit risk in the event of non-performance by counterparties to its derivative financial instruments. Non-performance is not anticipated since these counterparties are highly-rated financial institutions. The Company is also exposed to credit risk with respect to trade accounts receivable. The Company provides services to many customers across various geographic areas. No customer accounted for 10% or more of the Company's accounts receivable at March 31, 2008 or December 31, 2007. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risks, and maintains provisions for potential credit losses that are assessed on an ongoing basis. The allowance for doubtful accounts receivable at March 31, 2008 was \$1,218,000 (December 31, 2007 – \$1,197,000).

c) Liquidity risk

The Company is exposed to liquidity risk with respect to its contractual obligations and financial liabilities. The Company manages liquidity risk by maintaining borrowing facilities sufficient to cover both anticipated and unexpected fluctuations within the operations and by continuously monitoring cash flows. The Company believes that future cash flows generated by operations and availability under its revolving operating facilities will be adequate to meet its financial obligations. The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at March 31, 2008 based on contractual undiscounted payments are as follows:

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

13. Financial instruments (cont'd)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Long-term debt	\$ 6,422	\$ 10,464	\$ 28,174	\$ 28,351	\$ 73,411
Payables and accruals, including derivative financial instruments	56,124	-	-	-	56,124
Bank indebtedness	7,379	-	-	-	7,379
	\$ 69,925	\$ 10,464	\$ 28,174	\$ 28,351	\$ 136,914

Fair values

Fair value estimates are made at specific point in time, using available information about the financial instruments and current market conditions. The estimates are subjective in nature involving uncertainties and significant judgment.

The carrying values of financial instruments included in current assets and current liabilities in the consolidated balance sheets approximate their fair values, reflecting the short-term maturity and normal trade credit terms of these instruments. The fair value of the long-term debt is based on current pricing of financial instruments with comparable terms. This fair value reflects a point-in-time estimate that may not be relevant in predicting the Corporation's future income or cash flows. As at March 31, 2008 and December 31, 2007, the estimated fair value of the fixed and floating rate long-term debt corresponds to its carrying value.

14. Commitments and contingencies

a) Government grants

The Company has received grants in the amount of \$3,600,000 from government agencies that require the Company to continue to operate certain facilities and maintain a predetermined number of employees. In the event that these conditions are not met a portion of the grants becomes repayable. To date none of the grants received have become repayable. Future repayments, if any, are dependent on future events which cannot be determined with certainty as of the balance sheet date.

b) Guarantees

Under the terms of various debt agreements, the Company is required to indemnify various lenders against any unlimited losses arising out of specified changes in income tax law and other legislation. The occurrence and financial impact of specified changes in income tax law and other legislation cannot be determined at this time. No liability has been recorded to date in the Company's financial statements for these matters.

c) Other litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amounts which may be required to pay by reason thereof would have a material adverse impact on its financial position, results of operations, or liquidity.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

March 31, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

15. Subsequent events

a) UK acquisition

On April 1, 2008, the Company, through one of its subsidiaries, completed the acquisition of the United Kingdom Ministry of Defence (MOD) Defence Aviation Repair Agency (DARA) Rotary Wing and Components businesses for consideration of \$34,000,000 (£17,000,000). The purchase price is subject to a post-closing working capital adjustment. The assets acquired include net working capital estimated to be approximately \$27,000,000 (£13,500,000) and the land and buildings and fixed assets at the two facilities. The acquisition will be financed through existing credit facilities.

The Rotary Wing division is located in Gosport, England and provides maintenance, repair and overhaul support for the MOD Chinook (CH-47), Lynx and Sea King helicopters. The Components division is located in the Perthshire area in Scotland and provides maintenance, repair and overhaul and component support for these and other helicopter and fixed wing platforms within the United Kingdom, both for MOD and other customers.

The acquisition expands Vector's customer base, provides access to new markets in the defence sector and adds maintenance, repair and overhaul skills and capabilities. The acquisition will add approximately 1,300 employees to Vector's operations in the UK, nearly doubling its aggregate workforce.

The acquisition will be accounted for using the purchase method of accounting and the purchase price will be allocated based on the estimated fair values of the assets acquired and liabilities assumed.

b) Litigation Settlement – Prior Executives

In April 2008, the Company agreed to a settlement with Paul J. Conway and S. Maxwell Parsons (former executive officers of Vector until November 2003) in the previously disclosed litigation commenced against Vector, and one of its subsidiaries, seeking termination payments and benefits under their employment arrangements. The litigation has been vigorously defended and a counterclaim had been issued.

The settlement with Messrs. Conway and Parsons involve aggregate settlement payments of \$6,300,000. Vector had recorded in its current liabilities amounts equal to the settlement payments as at March 31, 2008 and, accordingly, the payment will have no effect on its income before tax.

The settlement of the litigation and related releases terminates all obligations of Vector under any supplementary executive retirement plans. The settlement and related releases also finalized and terminated all obligations involving the former executives. Vector is satisfied that the settlement amounts, in all the circumstances, were fair and appropriate.