



CORPORATION

Quarterly Consolidated Financial Statements

June 30, 2008

(in thousands of Canadian dollars)

Vector Aerospace Corporation

Consolidated Statements of Operations (Unaudited)

For the Three and Six Months ended June 30 (in thousands of Canadian dollars except per share amounts)

	Three Months		Six Months	
	2008	2007	2008	2007
Revenue	\$ 138,160	\$ 88,787	\$ 222,732	\$ 171,889
Cost of sales	99,608	65,588	161,179	126,576
Sales, general and administration	23,919	15,046	37,786	28,846
Amortization	1,998	2,142	3,945	4,147
Earnings from operations before unusual items	12,635	6,011	19,822	12,320
Unusual items (Note 9)	950	811	950	1,715
Earnings from operations	11,685	5,200	18,872	10,605
Interest expense (Note 4)	1,603	1,544	3,318	2,750
Earnings before income taxes	10,082	3,656	15,554	7,855
Income tax expense (recovery)				
Current	1,341	(712)	2,183	192
Future	444	2,050	1,283	2,159
	1,785	1,338	3,466	2,351
Net earnings	\$ 8,297	\$ 2,318	\$ 12,088	\$ 5,504
Net earnings per share (Note 8)				
Basic	\$ 0.22	\$ 0.06	\$ 0.32	\$ 0.15
Diluted	\$ 0.22	\$ 0.06	\$ 0.32	\$ 0.15

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Consolidated Statements of Shareholders' Equity (Unaudited)

For the Six Months Ended June 30 (in thousands of Canadian dollars)

	2008	2007
Retained earnings, beginning of period	\$ 13,112	\$ 1,009
Net earnings	12,088	5,504
Retained earnings, end of period	25,200	6,513
Capital stock (Note 6)	110,955	109,750
Employee stock purchase loans (Note 6)	–	(565)
Accumulated other comprehensive loss (Note 7)	(6,932)	(5,756)
Total shareholders' equity	\$ 129,223	\$ 109,942

See accompanying notes to consolidated financial statements

Consolidated Statements of Comprehensive Income (Unaudited)

For the Three and Six Months Ended June 30 (in thousands of Canadian dollars)

	Three Months		Six Months	
	2008	2007	2008	2007
Net earnings	\$ 8,297	\$ 2,318	\$ 12,088	\$ 5,504
Other comprehensive income (loss):				
Unrealized currency translation gain (loss) on self-sustaining foreign operations	225	(1,792)	1,430	(2,096)
Unrealized gain (loss) on interest rate swaps	474	540	(94)	376
Tax on unrealized gain (loss) on interest rate swaps	(162)	(184)	32	(128)
Other comprehensive income (loss) (Note 7)	537	(1,436)	1,368	(1,848)
Comprehensive income	\$ 8,834	\$ 882	\$ 13,456	\$ 3,656

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Consolidated Statements of Cash Flows (Unaudited)

For the Three and Six Months Ended June 30 (in thousands of Canadian dollars)

	Three Months		Six Months	
	2008	2007	2008	2007
Source (use) of cash				
Operating activities				
Net earnings	\$ 8,297	\$ 2,318	\$ 12,088	\$ 5,504
Items not involving cash				
Amortization	1,998	2,142	3,945	4,147
Gain on disposal of assets	(274)	(51)	(407)	(100)
Future income tax	444	2,050	1,283	2,159
Stock-based compensation	573	64	714	311
Defined benefit pension plan	4,371	1,172	4,958	1,586
Cash flow from operations	15,409	7,695	22,581	13,607
Settlement of prior executive lawsuit (Note 15)	(6,300)	(5,200)	(6,300)	(5,200)
Change in non-cash working capital (Note 10)	(1,523)	1,551	(13,298)	(6,725)
Cash provided by operating activities	7,586	4,046	2,983	1,682
Investing activities				
Additions to fixed assets	(1,277)	(761)	(3,047)	(2,338)
Proceeds from the disposal of fixed assets	682	–	682	–
Rental and spare engines, net	(2,361)	(2,357)	(4,891)	(3,708)
Additions to deferred charges	2,621	–	1,004	–
Licences and other	(982)	45	(2,324)	(19)
Business acquisition (net of cash acquired) (Note 16)	(33,768)	–	(33,768)	–
Cash used in investing activities	(35,085)	(3,073)	(42,344)	(6,065)
Financing activities				
Change in bank indebtedness (Note 4)	27,651	(351)	12,630	4,411
Issuance of long-term debt	17,450	330	45,284	1,713
Repayment of long-term debt	(2,535)	(1,823)	(4,662)	(3,063)
Other	540	363	583	944
Cash provided by (used in) financing activities	43,106	(1,481)	53,835	4,005
Effect of change in exchange rates	234	508	1,367	378
Cash balance, beginning of period	\$ –	\$ –	\$ –	\$ –
Change in cash during the period	15,841	–	15,841	–
Cash balance, end of period	\$ 15,841	\$ –	\$ 15,841	\$ –
Supplemental cash flow information				
Interest paid	\$ 1,441	\$ 969	\$ 2,841	\$ 2,235
Income taxes paid	\$ 614	\$ 71	\$ 1,010	\$ 2,985

See accompanying notes to consolidated financial statements

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 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, and the United Kingdom 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, with the exception of the accounting changes described 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)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

3. Goodwill and other assets

	June 30 2008	December 31 2007
Goodwill, less accumulated amortization of \$1,274,000 (2007 – \$1,274,000)	\$ 7,483	\$ 7,483
Future income tax asset	1,012	1,742
License fees, deferred charges and other, less accumulated amortization of \$26,466,000 (2007 – \$24,643,000)	26,716	10,445
	\$ 35,211	\$ 19,670

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 \$907,000 (2007 – \$646,000) and year to date was \$1,725,000 (2007 - \$1,394,000).

During 2008 the Company acquired new licenses for gas turbine engines that expire in 2018. In addition, certain existing gas turbine engine licenses were renewed and now expire in 2020.

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 has been released to the Company in April 2008 as part of the prior executive litigation settlement as described in Note 15.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

4. Bank indebtedness and Long Term Debt

			June 30 2008	December 31 2007
Bank indebtedness				
Canadian dollar (BA + 1.35%)			\$ 15,009	\$ 8,290
US dollar (LIBOR + 1.35%) (June 30, 2008 – \$6,909,000; December 31, 2007– nil)			7,038	–
Pound sterling (Base rate + 1.25%) (June 30, 2008 – £6,677,000; December 31, 2007– £7,029,000)			13,518	14,110
			\$ 35,565	\$ 22,400
Long-term debt				
Interest rates	Principal payment frequency	Maturity	June 30 2008	December 31 2007
North American financial institutions				
LIBOR + 1.50%	Quarterly	March 2012	\$ 13,028	\$ 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	5,311	4,529
0% to LIBOR + 1.8%	Semi-annually	Dec 2011	17,316	–
UK financial institutions				
Base rate + 1.0%	Quarterly	May 2008	–	814
Base rate + 1.25%	Quarterly	July 2011	3,954	3,627
LIBOR + 2.0%	Quarterly	March 2013	16,222	–
Total long-term debt			105,824	47,704
Less: current portion			18,982	6,790
			\$ 86,842	\$ 40,914

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

4. Bank indebtedness and Long Term Debt (cont'd)

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 \$239,820,000.

As collateral for the Pounds Sterling bank indebtedness, the Base rate + 1.25% term loan, which is due July 2011, 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 \$47,742,000.

As collateral for the Pounds Sterling bank indebtedness, the LIBOR + 2.0% term loan, which is due March 2013, 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 \$109,928,000.

As collateral for the 7.18% and prime + 1.0% term loans the Company has provided first ranking security interest over certain rental engines with a net book value of \$37,572,000. Included in the 0% to 7.24% term loans are unsecured facilities of \$2,093,000. The 0% to LIBOR + 1.8% loans are unsecured.

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 \$7,201,000.

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.

Foreign currency denominated debt

Outstanding debt held in Pounds Sterling amounted to \$33,694,000, equivalent to £16,618,000 (December 31, 2007 – \$4,441,000, equivalent to £2,265,000).

Outstanding debt held in US dollars amounted to \$24,354,000, equivalent to \$23,909,000 (December 31, 2007 – nil).

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Interest expense				
Interest on short-term debt	\$ 826	\$ 475	\$ 1,689	\$ 707
Interest on long-term debt	777	1,069	1,629	2,043
	\$ 1,603	\$ 1,544	\$ 3,318	\$ 2,750

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.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

4. Bank indebtedness and Long Term Debt (cont'd)

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 June 30, 2008 is a net payable of \$824,000 (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 income.

At June 30, 2008 the Company had in place short-term lines of credit totalling \$50,276,000 (December 31, 2007 – \$53,520,000) and long-term debt of \$105,825,000 (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 \$35,566,000 in aggregate at June 30, 2008 (December 31, 2007 – \$22,400,000). In addition, the Company had outstanding letters of credit of \$1,934,000 at June 30, 2008 (December 31, 2007 – \$2,153,000). At June 30, 2008, the Company had unused, available operating credit facilities of approximately \$7,853,000 (December 31, 2007 – \$21,346,000) in North America and \$4,923,000 (equivalent to £2,428,000) (December 31, 2007 – \$7,621,000, equivalent to £3,888,000) in the UK after taking into account the borrowing base calculation.

5. Other credits

	June 30 2008	December 31 2007
Deferred government assistance, less accumulated amortization of \$13,078,000 (2007 – \$12,633,000)	\$ 6,674	\$ 6,678
Accrued defined benefit pension liability	8,853	10,013
Future income tax liability	6,542	5,800
	\$ 22,069	\$ 22,491

Amortization related to deferred government assistance during the quarter was \$291,000 (2007 – \$248,000) and \$445,000 year-to-date (2007 – \$427,000).

Employee future benefit (pension) expense during the quarter was \$4,371,000 (2007 – \$702,000) and \$4,958,000 year-to-date (2007 – \$1,273,000).

Government grants received during the quarter amounted to \$441,000 (2007 – \$170,000) and \$441,000 year-to-date (2007 – \$450,000).

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

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 June 30, 2008 the change in issued common shares was as follows:

	Six months ended June 30, 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	19	61	176	460
Shares issued to employees for cash under share purchase plan	17	81	16	74
Stock-based compensation	–	714	–	620
Balance, end of period	37,675	\$ 110,955	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 598,800 are available at June 30, 2008. In the first six months of 2008, 690,100 stock options were granted (2007 – nil). 96,200 options have expired in the first six months of 2008 (2007 – 120,000). There were 19,300 (2007 – 176,400) options exercised during the first six months of 2008 at a weighted average exercise price of \$3.18 (2007 – \$2.61).

At June 30, 2008, the Company had 1,728,500 (December 31, 2007 – 1,153,900) options outstanding at a weighted average exercise price of \$4.10 (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 grants issued after August 2007 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 vested options was \$564,000 for the three months ended June 30, 2008 (2007 – \$64,000) and \$714,000 year-to-date (2007 – \$311,000). 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 half years, a risk free interest rate between 2.02% and 4.38%, a dividend yield of 0%, and volatility ranging from 25% to 52.6%.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

6. Capital stock (cont')

The following summarizes information about stock options outstanding at June 30, 2008:

Exercise Prices	Number Granted & Outstanding (Thousands)	Remaining Contractual Life in Years	Number Vested (Thousands)
\$ 2.00	127.0	6	101.6
\$ 2.04	100.0	6	100.0
\$ 2.31	250.0	6	250.0
\$ 3.70	15.5	2	15.5
\$ 4.15	271.1	7	—
\$ 4.22	230.0	8	185.0
\$ 4.25	10.0	7	2.0
\$ 4.25	103.6	8	41.4
\$ 4.63	100.0	7	100.0
\$ 5.15	15.0	1	15.0
\$ 5.50	250.0	7	—
\$ 5.60	191.3	6	38.3
\$ 6.00	50.0	7	50.0
\$ 8.10	15.0	1	15.0
	1,728.5		913.8

Non-interest bearing stock purchase loans to employees have been repaid in full as part of the litigation settlement as more fully described in Note 15.

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

7. Accumulated other comprehensive income (loss)

	June 30 2008	June 30 2007
Balance, beginning of period	\$ (8,300)	\$ (3,908)
Other comprehensive income (loss)	1,368	(1,848)
Balance, end of period	\$ (6,932)	\$ (5,756)

Quarter-end exchange rates

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

	June 30 2008	December 31 2007
US Dollars	1.02	0.99
UK Pounds Sterling	2.03	1.96

Foreign exchange gains included in net earnings for the three months ended June 30, 2008 were \$531,000 (2007 – \$881,000) and year to date were \$1,276,000 (2007 – \$691,000).

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

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		Six Months	
	2008	2007	2008	2007
Weighted average number of common shares outstanding – basic	37,661	37,475	37,590	37,350
Effect of shares used as security for share purchase loans	–	127	64	187
Effect of dilutive options	311	383	267	385
Weighted average number of common shares outstanding – diluted	37,972	37,985	37,921	37,922

9. Unusual items

	Three Months		Six Months	
	2008	2007	2008	2007
Acquisition costs	\$ 950	\$ 811	\$ 950	\$ 1,088
Reorganization costs	–	–	–	627
Net change in non-cash working capital	\$ 950	\$ 811	\$ 950	\$ 1,715

During the second quarter of 2008, the Company incurred costs of \$950,000 (2007 - \$811,00) and for the six months ended June 30, 2008, \$950,000 (2007 - \$1,088,000) which were related to the acquisition detailed in Note 16 that were not included in the purchase price allocation, that were recorded as an unusual item in the period.

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 \$627,000, 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.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

10. Change in non-cash working capital

	Three Months		Six Months	
	2008	2007	2008	2007
Receivables	\$ 633	\$ 337	\$ (6,066)	\$ 5,189
Work in progress	(8,070)	(1,657)	(14,402)	(3,807)
Inventory	(2,884)	4,661	(6,742)	(1,049)
Prepaid expenses and other	(965)	570	(749)	265
Payables and accruals	2,643	(2,617)	9,243	(7,686)
Deferred revenue	7,120	257	5,418	363
Net change in non-cash working capital	\$ 1,523	\$ 1,551	\$ (13,298)	\$ (6,725)

11. Segmented information

As of April 1, 2008, the Company provides services through three business segments — Fixed-Wing and Helicopter North America (“Helicopter NA”) and Helicopter United Kingdom (“Helicopter UK”). The Company is reported a new segment (“Helicopter UK”) as a result of the acquisition detailed in Note 16. The segments derive revenue principally from providing maintenance, 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 operating in Summerside, Prince Edward Island and Sigma Aerospace operating in Croydon, United Kingdom. The Helicopter NA segment includes Vector Aerospace Helicopter Services Inc. operating in Richmond and Langley, British Columbia and Vector Aerospace Helicopter Services USA, Inc. operating in Andalusia, Alabama. The Helicopter UK segment includes Vector Aerospace International Limited operating in Gosport and Perth, United Kingdom.

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

	Three Months Ended June 30, 2008				
	Fixed-Wing	Helicopter NA	Helicopter UK	Corporate and other	Total
Revenue from external customers	\$ 72,007	\$ 31,377	\$ 34,776	\$ –	\$ 138,160
Earnings from operations before amortization and unusual items	\$ 11,479	\$ 2,524	\$ 1,877	\$ (1,247)	\$ 14,633
Amortization	1,143	705	99	51	1,998
Earnings from operations before unusual items	\$ 10,336	\$ 1,819	\$ 1,778	\$ (1,298)	\$ 12,635
Unusual items	–	–	–	950	950
Earnings from operations	\$ 10,336	\$ 1,819	\$ 1,778	\$ (2,248)	\$ 11,685
Capital expenditures	\$ 218	\$ 475	\$ 265	\$ 319	\$ 1,277

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

11. Segmented information (Cont'd)

	Three Months Ended June 30, 2007				
	Fixed-Wing	Helicopter NA	Helicopter UK	Corporate and other	Total
Revenue from external customers	\$ 55,016	\$ 33,771	\$ –	\$ –	\$ 88,787
Earnings from operations before amortization and unusual items	\$ 7,247	\$ 3,198	\$ –	\$ (2,292)	\$ 8,153
Amortization	1,191	908	–	43	2,142
Earnings from operations before unusual items	\$ 6,056	\$ 2,290	\$ –	\$ (2,335)	\$ 6,011
Unusual items	–	–	–	811	811
Earnings from operations	\$ 6,056	\$ 2,290	\$ –	\$ (3,146)	\$ 5,200
Capital expenditures	\$ 177	\$ 412	\$ –	\$ 172	\$ 761

	Six Months Ended June 30, 2008				
	Fixed-Wing	Helicopter NA	Helicopter UK	Corporate and other	Total
Revenue from external customers	\$ 122,941	\$ 65,015	\$ 34,776	\$ –	\$ 222,732
Earnings from operations before amortization and unusual items	\$ 18,529	\$ 5,514	\$ 1,877	\$ (2,153)	\$ 23,767
Amortization	2,335	1,420	99	91	3,945
Earnings from operations before unusual items	\$ 16,194	\$ 4,094	\$ 1,778	\$ (2,244)	\$ 19,822
Unusual items	–	–	–	950	950
Earnings from operations	\$ 16,194	\$ 4,094	\$ 1,778	\$ (3,194)	\$ 18,872
Capital expenditures	\$ 415	\$ 1,594	\$ 265	\$ 773	\$ 3,047

	Six Months Ended June 30, 2007				
	Fixed-Wing	Helicopter NA	Helicopter UK	Corporate and other	Total
Revenue from external customers	\$ 105,465	\$ 66,424	\$ –	\$ –	\$ 171,889
Earnings from operations before amortization and unusual items	\$ 13,329	\$ 6,611	\$ –	\$ (3,473)	\$ 16,467
Amortization	2,443	1,613	–	91	4,147
Earnings from operations before unusual items	\$ 10,886	\$ 4,998	\$ –	\$ (3,564)	\$ 12,320
Unusual items	627	–	–	1,088	1,715
Earnings from operations	\$ 10,259	\$ 4,998	\$ –	\$ (4,652)	\$ 10,605
Capital expenditures	\$ 1,033	\$ 914	\$ –	\$ 391	\$ 2,338

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

11. Segmented information (cont'd)

Revenues are attributed to countries based on location of customers.

Geographic information – Revenue	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
North America				
Canada	\$ 21,695	\$ 16,074	\$ 43,294	\$ 28,718
United States	41,223	36,025	69,221	76,074
United Kingdom	40,946	8,164	49,570	15,118
Europe	7,111	9,762	15,160	16,422
Africa	9,226	6,691	13,237	13,430
Asia	3,347	3,386	6,371	7,015
Central and South America	4,194	3,426	6,386	6,103
Middle East	10,188	1,469	18,036	2,170
Other countries	230	3,790	1,457	6,839
	\$ 138,160	\$ 88,787	\$ 222,732	\$ 171,889

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)	June 30 2008	December 31 2007
Canada	\$ 73,320	\$ 67,763
United States	2,010	2,511
United Kingdom	53,956	19,263
Other countries	958	731
	\$ 130,244	\$ 90,268

Revenue by category	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
Gas Turbine Engines	\$ 85,443	\$ 72,517	\$ 152,974	\$ 139,959
Components	20,279	12,147	31,826	21,727
Helicopter Airframes	32,438	4,123	37,932	10,203
	\$ 138,160	\$ 88,787	\$ 222,732	\$ 171,889

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 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 it complies 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 Company was in compliance with all covenants at June 30, 2008 and December 31, 2007.

In the UK, the Company maintains two separate facility agreements and monitors net worth, cash flow to debt service, senior interest and asset coverage ratios on a quarterly basis. The net worth ratio must exceed £5,000,000; the cash flow coverage ratio to debt service must exceed a ratio of 1.0; the asset coverage ratio, which includes certain specified assets and liabilities, must exceed a ratio of 1.5 and 3.0; and the senior interest coverage ratio must exceed a ratio of 2.25 and 4.0. The Company was in compliance with all covenants at June 30, 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 and United Kingdom 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 income, net of income taxes. Both swap transactions were issued through a Canadian chartered bank and expire on November 30, 2009.

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 June 30, 2008 was \$252,000 (December 31, 2007 – \$52,000), is recorded on the balance sheet in payables and accruals.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

13. Financial instruments (cont'd)

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 June 30, 2008 was USD\$(561,000) (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 \$32,964,000 and the remaining U.S. dollar debt was USD\$4,482,000 (equivalent to USD\$4,400,000) at June 30, 2008. If the BA or USD LIBOR rates were to increase by 1%, the Company's earnings before income tax for the six months ended June 30, 2008 would be reduced by approximately \$187,000.

The amount of outstanding British Pound variable rate debt at June 30, 2008 was \$33,694,000 (equivalent to £16,617,000) (December 31, 2007 – \$18,549,000, equivalent to £9,464,000). If the UK base rate was to increase by 1%, the Company's earnings before income tax for the six months ended June 30, 2008 would be reduced by approximately \$168,000 (December 31, 2007 – \$93,000).

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 a portion 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 June 30, 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 June 30, 2008 was \$1,264,000 (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 June 30, 2008 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
Long-term debt	\$ 18,982	\$ 18,610	\$ 24,160	\$ 44,072	\$ 105,824
Payables and accruals, including derivative financial instruments	97,465	–	–	–	97,465
Bank indebtedness	35,565	–	–	–	35,565
	\$ 152,012	\$ 18,610	\$ 24,160	\$ 44,072	\$ 238,854

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

13. Financial instruments (cont'd)

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 June 30, 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.

15. Litigation settlement – prior executives

In April 2008, the Company agreed to a settlement with two 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 such former executives involves aggregate settlement payments of \$6,300,000. Vector had recorded in its current liabilities amounts equal to the settlement payments and, accordingly, the payments had 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.

Vector Aerospace Corporation

Notes to the Consolidated Financial Statements (Unaudited)

June 30, 2008 (all tabular amounts in thousands of Canadian dollars except per share amounts)

16. Business 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 \$34million (£17million). The purchase price is subject to a post-closing working capital adjustment which has been estimated and is subject to change. The acquisition was financed through existing credit facilities. The results of DARA have been included in the Company's results since April 1, 2008, the date of the acquisition.

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 has been accounted for using the purchase method of accounting and the purchase price has been allocated based on the estimated fair values of the assets acquired and liabilities assumed. The determination of the final purchase price and purchase price allocation is subject to change based on the post-closing working capital adjustment, the final valuation of fixed assets, customer related intangibles and future income tax. Estimated integration costs of \$12.2million are included in the purchase price allocation of which the full amount remains outstanding at June 30, 2008. The excess of the purchase price over the fair value of the net assets acquired (negative goodwill) of approximately \$62million has been recognized as a reduction of the accounting value of the fixed assets.

17. Comparative figures

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.