VECTOR AEROSPACE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations ("MD&A") has been prepared as of July 28, 2008 and should be read in conjunction with the accompanying interim consolidated financial statements and notes thereto for the three months ended June 30, 2008 and the Company's annual audited financial statements, notes thereto and MD&A for the year ended December 31, 2007 contained in the Company's 2007 annual report. The interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted.

The consolidated financial statements and MD&A for the year ended December 31, 2007 and the three months and six months ended June 30, 2008 are available on the Company's website at www.vectoraerospace.com and on SEDAR at www.sedar.com.

1 SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A are forward-looking statements or information, collectively "forward-looking statements". The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements made in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to", "will continue", "is anticipated", "estimated", "intend", "plan", "projection", "could", "may", "believes", "feel", "targeting", "look forward", "goals", "objective", "outlook" and similar expressions) are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Without limitation, information regarding the expected revenue from the contract signed with the Royal Saudi Air Force, the impacts on the aviation industry of the tensions and conflicts in the Middle East, the impacts of possible acts of terrorism on the aviation industry, timing of product delivery, availability of parts from original equipment manufacturers ("OEMs") and others used in providing the Company's services, U.S. and foreign government activities, volatility of the market for the Company's services, worldwide political stability, factors that could result in significant or prolonged disruption to commercial air travel worldwide, domestic and international economic conditions, other political and economic situations and uncertainties, changes in foreign currency exchange rates, the impacts of changes in government priorities and spending on military aviation activities related to the Company's services, the ability of the Company to replace lost revenue of a customer significant to an operating division, the ability of the Company to successfully implement production efficiency changes, cost reductions and restructuring initiatives at various locations throughout the Company and the possibility that such efforts will not have as great an impact on the operating results of the Company as is currently anticipated, is forward-looking information. Readers should also refer to the Company's continuous disclosure materials filed with Canadian Securities Regulatory Authorities for additional information with respect to certainly of these risk factors, including the 2007 Annual Report and Management's Discussion and Analysis.

Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from the Company's expectations ("**Cautionary Statements**"), including changes in general economic, market and business conditions, fluctuations in the cost of borrowing, political and economic development, the Company's ability to receive timely regulatory approvals, competitive actions of other companies, including increased competition from OEMs with their own in-house service providers, the occurrence of unexpected events such as fires, equipment failures and other similar events affecting the Company or other parties whose operation or assets directly or indirectly affect the Company, and those risks set forth under the heading "Risk Factors" below.

All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of the Company are expressly qualified in their entirety by the Cautionary Statements. The forward-looking information contained herein is current only as of the date of this document. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise unless such disclosure is required by law.

2 OVERALL PERFORMANCE

2.1 Business of the Company

Vector Aerospace Corporation ("Vector" or with its various subsidiaries "the Company") is a global provider of aviation maintenance, repair and overhaul services ("MRO") for fixed 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 South Africa serving both commercial and military markets.

Vector was founded in 1998 and acquired the fixed-wing aircraft engine repair and overhaul business from Atlantic Turbines International Inc. (the "ATI business"), the fixed-wing aircraft and industrial turbine engine repair and overhaul business from Canadian Helicopters (Barbados) Limited (the "Sigma business"), and the rotary-wing aircraft repair and overhaul business from

Canadian Helicopters Limited (the "ACRO business"). Each of the Sigma and ACRO businesses was a subsidiary of CHC Helicopters Corporation. In 1999, Vector acquired the shares and net assets of the various entities in the Helipro Group of Companies ("Helipro") as well as the net assets and businesses of various entities that comprised Alameda Aerospace ("Alameda"). In 2003, the businesses of Alameda and Helipro were combined with the ACRO business for management purposes and were considered one business unit. In 2004, ACRO Aerospace Inc. changed its legal name to Vector Aerospace Helicopter Services Inc.

In October 2004, Vector sold substantially all of the operating assets of Alameda Aerospace. Historical results of this operating unit were retroactively classified as discontinued operations in the financial statements for the years ended December 31, 2004 and 2005.

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 cash consideration of $34,694,000 (£17,111,000). The estimated purchase price adjustment of $19, 043,000 (£9,300,000) is subject to a post-closing working capital adjustment and the land and buildings and fixed assets at the two 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 is 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 cost of $12.2million are included in the purchase price allocation of which the full amount remains outstanding at June 30, 2008. Negative goodwill of approximately $62Million has been recognized as a reduction of fixed assets.

Assets acquired:		
Cash and cash equivalents	$	10,584
Receivables		41,939
Work in progress		18,707
Inventory		4,107
Prepaid expenses		222
Fixed assets		34,215
	$	109,774
Liabilities assumed:		
Payables and accruals		20,849
Deferred revenue		25,530
		46,379
Net assets acquired	$	63,395
Purchase consideration:		
Cash paid on closing	$	34,694
Estimated purchase price adjustment (working capital)		19,043
Acquisition costs		9,658
Total purchase consideration	$	63,395

2.2 Business Segments

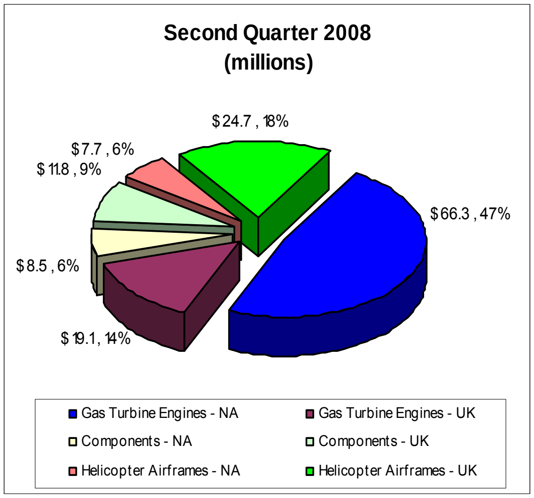
The Company provides MRO services through three business segments — fixed-wing and helicopter – North America and United Kingdom.

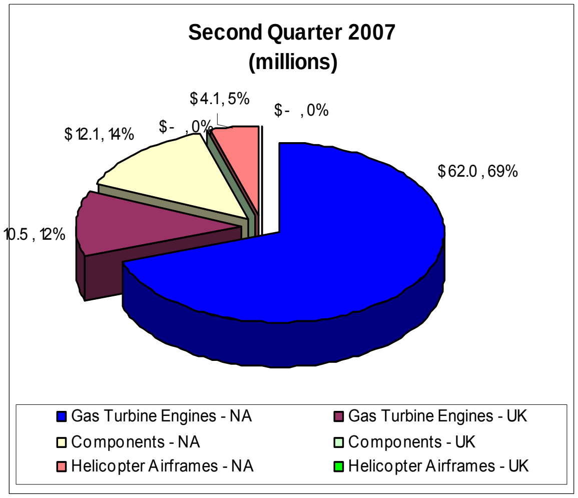
The fixed-wing segment includes Atlantic Turbines International Inc. ("Atlantic Turbines") operating in Summerside, Prince Edward Island and Sigma Aerospace Limited ("Sigma") operating in Croydon, United Kingdom ("UK"). This segment services turboprop and turbofan gas turbine engines for military, commercial airline and corporate applications. It also services industrial gas turbines.

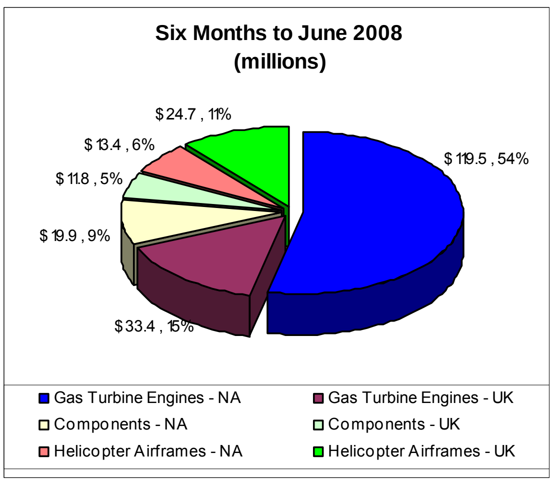
The helicopter segment operates as Vector Aerospace Helicopter Services – North America ("VAHSNA") and Vector Aerospace Helicoptor Services – United Kingdom "VAHSUK' servicing both military and commercial helicopters and includes operations in Richmond and Langley, British Columbia; Andalusia, Alabama; Gosport, England and Perthshire, Scotland . This segment services turboshaft engines, dynamic components such as gearboxes and main rotorheads, and provides helicopter airframe modifications, repair, and refurbishment.

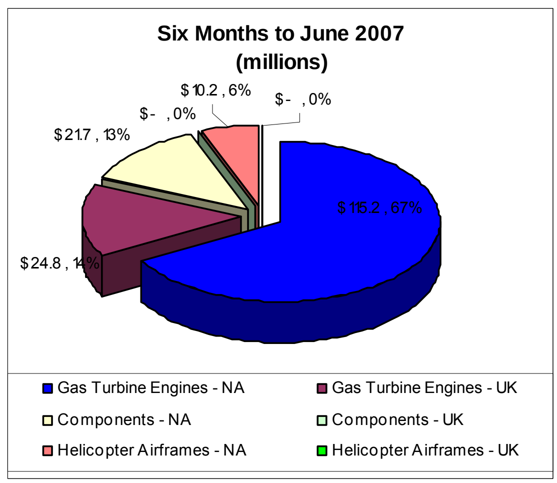
Both the helicopter and fixed-wing segments have smaller regional service facilities, and sales and marketing representation in various other locations.

2.3 Revenue Categories









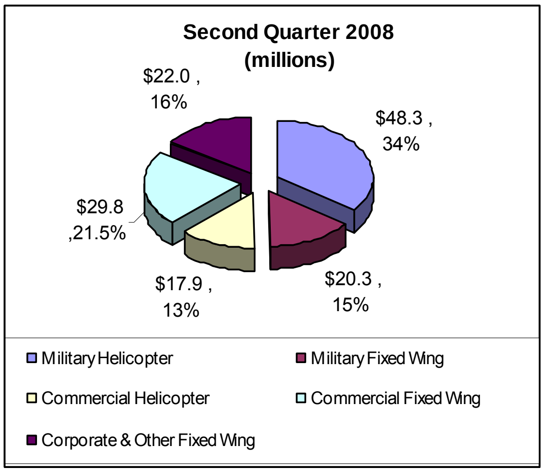
The Company's revenue is generated from providing a range of products and services for a diverse category of customers operating in various geographic locations throughout the world.

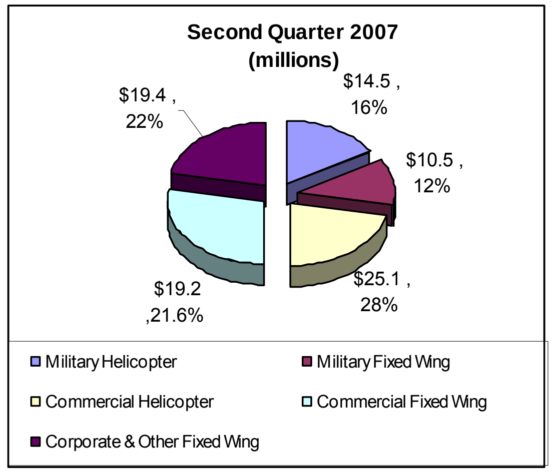
The Company derives the majority of its revenue from servicing gas turbine engines, primarily turboprops for fixed wing aircraft and to lesser extent turbofans and turboshafts for helicopters. Revenue related to the gas turbine engine category increased by $12,900,000 in the second quarter of 2008 compared to the same period as prior year and were consistent for the first half of 2008 compared to the same period as prior year.

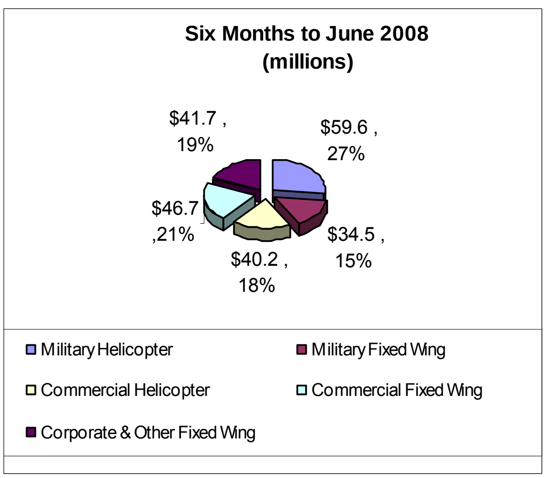
Helicopter component sales were $ 1,900,000 lower in North America in the second quarter of 2008 as compared to the previous year. Helicopter component sales from Vector Aerospace International Limited (DARA) were $11,800,000 for the quarter ended June 30, 2008. Consolidated helicopter components were $8,132,000 higher in the second quarter of 2008 compared to the same period prior year.

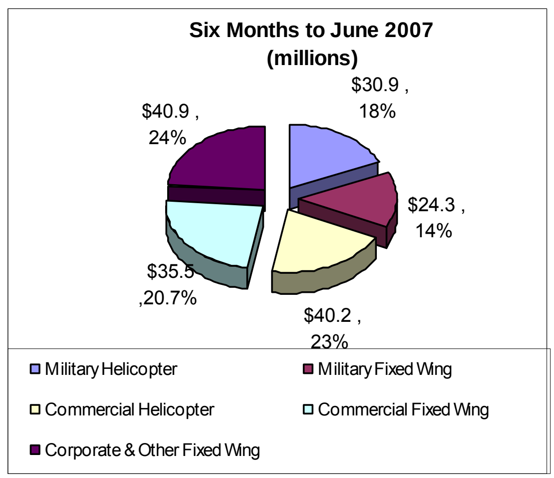
Helicopter airframe revenues from the North American divisions were $3,200,000, higher in the second quarter of 2008 than in the second quarter of 2007 as a result of a large airframe project that was completed in this quarter. Helicopter airframe revenues from the United Kingdom divisions were $24,700,000 for the quarter ended June 30, 2008,

Revenue by category of customer









The Company has **military customers** in both its fixed-wing and helicopter segments. In the fixed-wing segment, military revenue is primarily generated at Sigma from the Rolls-Royce T56 engine, which powers the C-130 Hercules aircraft for customers such as the UK Ministry of Defense ("MoD"), the Belgian Air Force and the RSAF. Sigma also performs work for the MoD on the Conway engine, which powers its fleet of mid-air refueling jets. Second quarter revenue related to military fixed-wing aircraft increased by $17,000,000 over the same period in the prior year. This increase occurred primarily as a result of the increased activity on the RSAF contract.

The helicopter segment primarily services the militaries of Canada and the United States, but also derives revenues from other countries. VAIL derives a significant portion of its review from the UK Ministry of Defense ("MoD"). VAHS provides numerous services to the Canadian Department of

National Defense ("DND"), including MRO work for the Sea King (CH-124), Griffon (CH-146), Buffalo (CC-115) and Cormorant (CH-149). In the United States, the VAHS facility in Andalusia, Alabama performs structural repair and overhaul for L3 Communications (the ultimate customer being the US Navy), which trains helicopter pilots at Whiting Field. The Alabama facility is located close to Fort Rucker where the US Army trains helicopter pilots and also secures engine overhaul and repair work for the US Navy, which is performed at the Richmond, B.C. facility. VAHS provides direct and indirect repair and overhaul services for various United States military organizations and includes activity on Rolls Royce 250 engines ("RR250") and Sikorsky H3 (US version of Sea King) helicopters.

Military helicopter customers also include services provided to a number of para-public organizations including police forces, national guards, border patrol units and emergency medical services ("EMS"). Services provided to these agencies include periodic engine overhauls and component replacements directly related to flight hours, and extensive upgrades related to aircraft life extension programs.

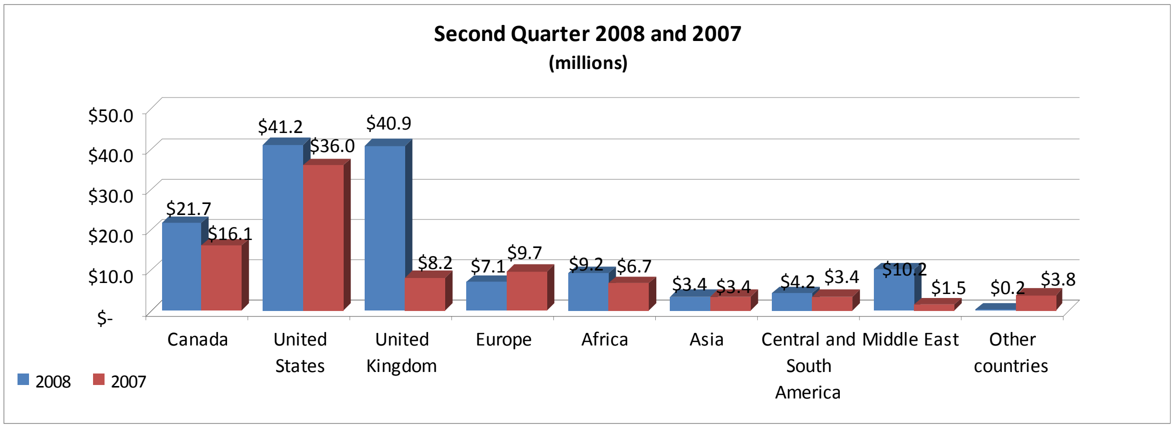
Revenue from military helicopter customers decreased by $4,900,000 in the second quarter of 2008 as compared to the same period in 2007, as a result of the completion of a US military contract in 2007 that was not replaced. Military related helicopter revenues are anticipated to be lower in fiscal 2008 as compared to 2007 as a result of the completion of a large US military contract in 2007.

Commercial helicopter customers operate in a variety of commercial sectors, including offshore oil and gas, mining, forestry, EMS and tourism. Services to these customers include comprehensive helicopter MRO, including engines, airframes and dynamic components. Revenue from this customer segment increased by $5,956,000 in the second quarter of 2008 as compared to the second quarter in 2007, primarily as a result of high activity levels related to dynamic components.

Commercial fixed wing customers serviced by Atlantic Turbines operate PW100 turboprop powered aircraft such as the Dash 8, Embraer 120, and ATR 42/72 as well as PT6A powered turboprop aircraft. Activity in the second quarter of 2008 at Atlantic Turbines increased by $1,799,000 over the same period of the prior year primarily due to increased activity levels on the PW100 engine line.

Corporate and other fixed wing customers primarily utilize PT6A powered turboprop aircraft, such as the King Air, and JT15D powered business jet aircraft, such as the Cessna Citation and Raytheon Beechcraft. MRO activity on this aircraft type has cyclicality based on flying hours and the usage of the aircraft. The corporate market is an area that the Company believes offers longer-term expansion opportunities through the Atlantic Turbines operation. Lower activity levels at Atlantic Turbines in the second quarter of 2008 primarily accounted for the $1,803,000, revenue decrease in this segment.

2.3.1 Revenue by geographic location of customers



Customers operating in the United States and Canada continue to represent the majority of revenue for the Company, followed by customers in Europe and the United Kingdom. The $12,049,000 decrease in revenue in the second quarter from the United States compared to the same period in 2007 is as a result of the impact of a number of factors including the impact of changes in the US / Canadian exchange rate year over year, the completion of a large US military contract in 2007 and declining economic conditions in the US which have negatively impacted the activity levels in the satellite facilities in the United States. Revenue from customers operating in Canada was higher in the second quarter of 2008 by $8,955,000 compared to the same period in 2007 as a result of higher Canadian Military revenues. The reduction in sales from customers in the United States was more than offset by increased sales in Canada and the Middle East.

No customer accounts for more than 10% of the Company's revenue.

The Company believes that both the fixed-wing and helicopter segments are diversified in the products and services they offer and in their customer base. Revenues generated from both commercial and military customers in the two market segments are a stabilizing factor for the Company.

2.4 Business Strategy

Vector's aim is to be "best in class" of those companies that provide MRO services in the helicopter segment and in the limited markets it services in the fixed-wing segment. The Company provides a range of MRO services and products to a diverse customer base in numerous locations. The Company continually looks for opportunities to profitably expand the business and increase shareholder value.

The Company has agreements in place and has developed important relationships with Original Equipment Manufacturers ("OEMs") of gas turbine engines, including General Electric, Honeywell, Pratt & Whitney Canada, Rolls-Royce, and Turbomeca. These relationships maintain the Company as a highly regarded authorized provider of MRO services for a variety of turboprop, turbofan, and turboshaft engines.

The Company has also developed important relationships and has agreements in place with numerous manufacturers of helicopters, including Bell Helicopter, Erickson, Eurocopter and Sikorsky. These relationships have established the Company as a highly regarded provider of helicopter MRO services for dynamic components, gearboxes, avionics, and structural modifications and repairs for both military and commercial customers.

2.4.1 General

The Company will continue to focus on:

- Streamlining existing processes to achieve efficiencies and reduce costs
- Maintaining and leveraging strong relationships with existing customers and suppliers
- Increasing revenue from a broad base of government, commercial, corporate and industrial customers around the world
- Growing the business with value-added ancillary services.

2.4.2 Strategic Focus – Fixed-Wing

Vector's focus at Atlantic Turbines is to increase its market share related to the PW100 engine and continue to grow its PT6A and JT15D markets by further penetrating the corporate aviation market. Atlantic Turbines continues to focus on process improvements to increase operating efficiency and profitability. For shortened routes, the turboprop aircraft are more cost effective and continue to be used by regional carriers, smaller operators, and the larger airlines in North America and other parts of the world.

At Sigma, the Company is continuing to broaden its military customer base for the Rolls Royce T56. Sigma is the sole provider of Rolls-Royce Conway engine services for the MoD. A replacement aircraft for mid-air refueling has been announced and is expected to be commissioned and in service within the next five to eight years. Engine repair and overhaul requirements from this customer are expected to decline in the near to medium term. The Company is developing other revenue sources to replace this business. Government spending levels allocated for defense affects military MRO activities.

2.4.3 Strategic Focus – Helicopter

VAHS has strong relationships with all major engine OEMs and helicopter manufacturers and offers a wide range of MRO services, including engines, dynamic components, accessories, structures and avionics. The strategic focus for VAHS is to continue to leverage these relationships and capabilities, and to expand its customer base. The available market is large, but also fragmented without a dominant player, leaving room for VAHS to grow. The acquisition of DARA provides an attractive platform from which the Company can grow its market presence in Europe and Asia.

2.4.4 Competitive Envirnment

Vector Aerospace is recognized and respected as a leading global player in the aviation maintenance, repair, and overhaul business. The Company competes with OEMs who have their own in-house MRO divisions, aircraft (fixed-wing and helicopter) operators who run their own

MRO operations, and with several independents that also offer a wide range of MRO capabilities. The Company continues to be the largest independent helicopter MRO operator in North America and anticipates further expansion of its customer base and revenues.

The worldwide market for commercial airline MRO service is estimated to be approximately $40 billion per year. An estimated 75% of commercial airline MRO is performed by the airlines themselves, 15% is provided by independent providers, such as the Company, and OEMs provide 10%. The worldwide market for military aircraft MRO is estimated to be approximately $50 billion per year. Although local governments and OEM's provide the majority of military MRO, there is a continuing trend to outsource these activities to reduce costs.

The demand for MRO services is driven by the size and age of the aircraft fleet, aircraft utilization and changes in safety and public regulation. Successful companies in the MRO business offer a comprehensive range of product lines and services that are able to attract, develop, and retain highly qualified employees. Success is dependent on building a solid reputation for providing high quality service with quick response times on competitive commercial terms. The Company is competitive and management believes that it compares favorably to its competitors.

3 RESULTS OF OPERATIONS

3.1 Revenue

Outlined below is the Company's comparative revenue:

(Millions of Canadian Dollars)	Three Months Ended June 30, 2008				
	2008		2007		Change
Segments					
Fixed-wing	**$72.0**	***52.1%***	$55.0	*61.9%*	$17.0
Helicoptor - NA	**31.4**	***22.7***	33.8	*38.1%*	(2.4)
Helicoptor - UK	**34.8**	***25.2***	-	-	34.8
Total revenue	**$138.2**	***100.0%***	$88.8	*100.0%*	$49.4

(Millions of Canadian Dollars)	Six Months Ended June 30, 2008				
	2008		2007		Change
Segments					
Fixed-wing	**$122.9**	***55.2%***	$105.5	*61.4%*	$17.4
Helicoptor - NA	**65.0**	***29.2%***	66.4	*38.6%*	(1.4)
Helicopter - UK	**34.8**	***15.6%***	-	-	34.8
Total revenue	**$222.7**	***100.0%***	$171.9	*100.0%*	$50.8

Details by business segment are as follows:

3.1.1 Fixed-wing

Revenue in the fixed-wing segment increased $17,000,000 in the second quarter 2008 compared to the same period in the prior year primarily as a result of increased activity levels at both Atlantic Turbines and Sigma.

Revenue for the second quarter of 2008 at Atlantic Turbines was $7,900,000 above the same period in the prior year as a result of higher activity on the PW100 and PT6 engines lines. Revenue for the second quarter of 2008 at Sigma was $9,100,000 higher than the same period in the prior year as a result of higher activity on the T-56 engine line, primarily from the RSAF.

Revenues from fixed-wing segment in the first half of 2008 were $17,400,000 higher than the same period in 2007, with Atlantic Turbines contributing $8,600,000 and Sigma at $8,800,000 to the increase.

3.1.2 Helicopter

3.1.2.1 North America

Revenue in the helicopter segment for North America for the second quarter of 2008 decreased by $2,400,000 compared to the same period in the prior year, primarily due to lower activities levels on gas turbine engines.

Approximately seventy-six percent (76%) of the helicopter segment revenues for North America were billed in US funds in the second quarter of 2008. Changes in the exchange rates compared to prior year had a negative impact on revenues as set out in section 6.2 of this report.

Revenue for the first half of 2008 decreased by $1,400,000 compared to the same period in the prior year primarily due to lower activities levels on gas turbine engines.

3.1.2.2 United Kingdom

The acquisition of Vector Aerospace International Limited contributed $34,800,00 in revenue for the quarter and year to date.

Operating Results

Outlined below are the Company's comparative segment earnings:

Segment Operating Earnings from continuing operations before unusual items

(Millions of Canadian Dollars)	**Three Months Ended June 30**			**Six Months Ended June 30**		
	2008	2007	Change	**2008**	2007	Change
Segments						
Fixed-wing	**$ 10.3**	$ 6.0	$4.3	**$16.1**	$ 10.9	$5.2
% of segmented revenue	***7.5%***	*11.0%*		***7.2%***	*10.3%*	
Helicopter - NA	**1.8**	3.6	(1.8)	**4.1**	5.0	(.9)
% of segmented revenue	***1.3%***	*6.8%*		***1.8%***	*7.5%*	
Helicopter - UK	**1.8**	-	1.8	**1.8**	-	1.8
% of segmented revenue	***6.8%***			***.8%***		
Corporate and other	**(1.3)**	(3.9)	2.7	**(2.2)**	(5.7)	2.5
% of total revenue	***(1.6%)***	***(3.5%)***		***(1.4%)***	*(2.7%)*	
Earnings from continuing operations before unusual items	**$12.6**	$4.8	7.5	**$19.8**	$10.2	$8.6
% of total revenue	***9.1%***	***5.9%***		***8.9%***	*6.5%*	

Details by business segment are as follows:

3.1.3 Fixed-wing

Segment earnings before unusual items related to fixed-wing operations increased by $4,300,000 in the second quarter of 2008 as compared to 2007. Increased earnings resulted from increased revenues and improved margins at Sigma arising from changes in product mix.

The first half of 2008 showed increased fixed-wing earnings by $5,200,000 over the same period in prior year with Atlantic Turbines contributing $900,000 and Sigma contributing $4,300,000 to the change. This increased operating earnings was a result of the increased activity level in the quarter, that are not anticipated to continue through the balance of the year. Overall, results for the second half (in aggregate) of the year are expected to be similar to the first half (in aggregate) of 2008.

3.1.4 Helicopter

3.1.4.1 North America

Segment earnings related to helicopter North American operations decreased by $1,800,000 compared to the same period in the prior year due to reduced gross margins driven by lower revenues, changes in product mix and the strengthening of the Canadian dollar.

The first half of 2008 helicopter – North America earnings decreased by $900,000 compared to the same period in 2007 due to lower revenues and changes in product mix.

3.1.4.2 United Kingdom

Segment earnings related to helicopter United Kingdome operations contributed $1,800,000 in the quarter ended June 30, 2008 and year to date.

3.1.5 Corporate and other expenses

Corporate and other expenses were $2,700,000 lower in the second quarter of 2008 compared to the same period in the prior year primarily as a result of foreign exchange gains of approximately $500,000 recorded in the second quarter of 2008 ($1,300,000).

For the first half of 2008, corporate and other expenses were $2,067,000 lower than the same period in 2007, as a result of the foreign exchange gains recorded in 2008 compared to the foreign exchange losses recorded in 2007.

3.2 Depreciation and Amortization

Amortization expense was $1,998,000 for the second quarter of 2008 marginally lower than the $2,140,000 amortization expense in the same period in the previous year.

For the first half of 2008, amortization expense was $3,945,000 as compared to $4,147,000 in the same period in 2007.

3.3 Unusual Items

During the second quarter of 2008 ($950,000) and 2007 ($811,000), the company incurred costs related to the acquisition of VAIL that were not recorded in the purchase price adjustment. These amounts were recorded as an unusual item in the period.

During the first half of 2008 ($950,000) and 2007 ($1,715,000), the company incurred costs related to the acquisition of VAIL and 2007 re-organization costs as described below.

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 in the first quarter. 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.

3.4 Interest Expense

Interest expense was $1,603,000 for the second quarter of 2008, up from $1,544,000 in the same period as the previous year, as a result of a higher level of borrowings which were impacted by cash flows from operations and investment in fixed assets in fiscal 2008.

For the first half of 2008, interest expense was $3,318,000, up from $2,750,000 in the same period in 2007. The increased interest expense relates to the higher debt levels, primarily to finance the DARA acquisition.

3.5 Income Tax Expense

An income tax expense of $1,341,000 and a future income tax expense of $444,000 were recorded in the second quarter of 2008 on pre-tax income of $10,082,000 (effective tax rate of approximately 17.7%). In the same period last year, income tax recovery of $712,000 and a future income tax expense of $2,050,000 were recorded on pre-tax earnings of $3,656,000 (effective tax rate of approximately 36.6%).

In the first half of 2008 an income tax expense of $2,183,000 and a future income tax expense of $1,283,000 were recorded on a pre-tax income of $15,554,000 (effective tax rate of approximately 22.3%). In the same period last year, income tax expense of $192,000 and a future income tax expense of $2,159,000 were recorded on pre-tax earnings of $7,855,000 (effective tax rate of approximately 29,9%)

Tax provisions are affected by different tax rates and laws in the various jurisdictions in which the Company operates, as well as periodic adjustments to the valuation allowance associated with tax losses carried forward. The utilization of tax losses, the benefit of which was previously unrecorded reduced the effective tax rate for the first quarter of 2007 to a much greater extent than in the second quarter of 2008.

The utilization of income tax losses carried forward and the provincial tax rebate in Prince Edward Island reduces tax expense. The Company's effective tax rate is expected to increase in future quarters and years.

3.6 Net Earnings

Net earnings in the second quarter of 2008 were $8,297,000 compared to $2,318,000 in the same period in the prior year. Basic earnings per share were $0.22(2007 - $0.06) and diluted earnings per share were $0.22 (2007 - $0.06).

For the first half of 2008, net earnings were $12,088,000 compared to $5,504,000 in the same period of 2007. Basic earnings per share were $0.32 (2007 – $0.15) and diluted earnings per share were $0.32 (2007 – $0.15).

3.7 Comprehensive Income

Vector's foreign subsidiaries are operationally self-sustaining. Accordingly, their assets and liabilities are translated into Canadian dollars at period end exchange rates.

Comprehensive income represents the change in shareholders equity, which results from transactions and events from sources other than the Company's shareholders. These transactions and events include unrealized gains and losses resulting from changes in the market value of interest rate swaps net of taxes and unrealized gains and losses resulting from translation of self-sustaining foreign operations.

The impact of marking the value of interest rate swaps to market for the second quarter 2008 net of tax, was $374,000 and for 2007 was $108,000.

The foreign currency translation adjustment ("CTA") represents the unrealized gain or loss on Vector's net investment in self-sustaining foreign operations. The CTA decreased by $1,153,000 in the secpnd quarter of 2008 as a result of changes in the US dollar and British pound exchange rates relative to the Canadian dollar.

4 SELECTED QUARTERLY FINANCIAL INFORMATION

Comparative selected quarterly financial information is as follows:

(in $ millions except share amounts)

	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Revenues								
Fixed wing	**$72.0**	$50.9	$50.4	$51.0	$55.0	$50.4	$49.1	$49.2
Helicopter - NA	**31.4**	33.6	32.8	33.0	33.8	32.7	34.1	37.1
Helicopter - UK	**34.8**	-	-	-	-	-	-	-
Total	**$138.2**	$84.5	$83.2	$84.0	$88.8	$83.1	$83.2	$86.3
Earnings from operations before the undernoted								
Fixed wing	**10.3**	5.8	4.0	5.5	6.0	4.8	4.9	4.8
Helicopter - NA	**1.8**	2.3	2.9	3.0	2.3	2.7	2.8	3.3
Helicopter -UK	**1.8**	-	-	-	-	-	-	-
Corporate and other	**(1.3)**	(0.9)	(.09)	(1.9)	(2.3)	(1.2)	(1.2)	(1.2)
Total	**11.7**	7.2	6.0	6.6	6.0	6.3	6.5	6.9
Unusual items	**0.9**	-	3.9	0.4	0.8	0.9	-	-
Earnings from operations	**11.7**	7.2	2.1	6.2	5.2	5.4	6.5	6.9
Net earnings	**8.3**	$3.8	$3.1	$3.5	$2.3	$3.2	$4.1	$4.0
Net earnings per share (basic)								
Basic	**0.22**	0.10	0.08	0.09	0.06	0.09	0.11	0.11
Diluted	**0.22**	0.10	0.08	0.09	0.06	0.09	0.11	0.11
Weighted average number of common shares outstanding *(in millions)*								
Basic	**37,661**	37,517	37,509	37,504	37,475	37,225	37,194	37,184
Diluted	**37,972**	37,869	37,861	37,976	37,985	37,859	37,829	37,779

The 1st quarter(Q1) is for the period from January 1 to March 31, the second quarter(Q2) is for the period from April 1 to June 30, the third quarter(Q3) is for the period from July 1 to September 30 and the fourth quarter(Q4) is for the period from October 1 to December 31

5 LIQUIDITY AND CAPITAL RESOURCES

5.1 Operating Activities

Cash flow generated from operations before changes in non-cash working capital was $15,400,000 in the second quarter of 2008 compared to $7,695,000 in the same period in the prior year. The increase in cash generated from operations before changes in non-cash working capital occurred primarily as a result of the increase in earnings for the period.

During the second quarter of 2008 and in 2007 the Company (used)/generated ($1,523,000) and $1,551,000 of cash from changes in non-cash working capital respectively, as a result in increased in accounts payable and accrued liabilities due to the acquisition of DARA.

The Company recognizes that there has been a substantive increase in non-cash working capital during the second quarter of 2008. This is in part a result of the increased activity levels, especially at ATI and Sigma. The Company has put additional attention towards the generation of cash flow calculating from reduction of non-cash working capital.

5.2 Investing Activities

The Company used $35,076,000 of cash related to investing activities in the second quarter of 2008 compared with $3,073,000 used in the same period in the prior year. This is in part due to the acquisition of DARA and new licences acquired.

During the second quarter of 2008 the Company spent $1,277,000 (2007 - $761,000) on fixed asset additions primarily on new tooling and equipment in the helicopter segment. The Company spent $2,361,000 (2007 - $2,357,000) on rental and spare engines.

5.3 Financing Activities

After taking into account the changes in foreign exchange rates, total debt increased by $45,101,000 in the second quarter of 2008 to $55,075,000 as at June 30, 2008. Payments on long-term debt were $2,535,000 in the second quarter of 2008 compared to $1,823,000 in the same period in the prior year.

During the second quarter of 2008, the Company obtained $441,000 (2007 - $170,000) in government grants.

5.4 Credit Facilities

The Company has separate credit facilities and associated financial covenants in place for its North American and United Kingdom operations. At June 30, 2008, the Company's North American and United Kingdom borrowings, under its operating and term facilities, were within the terms established in the associated loan agreements.

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.

5.5 Debt Agreements

The terms of some of the Company's debt agreements impose certain operating and financial limitations on the Company. Such agreements limit, among other things, the Company's ability to increase indebtedness, create liens, make capital expenditures subject to certain limitations, engage in mergers or acquisitions, sell assets, transfer funds between companies within the Vector group and make dividend payments. These limitations have not hampered the Company's ability to conduct normal operations.

The Company's ability to comply with any of the foregoing operating and financial limitations and with its loan repayment provisions will depend upon its future performance. This will be subject to prevailing economic conditions and other factors, some of which may be beyond the Company's control.

The Company believes that cash flow from operations and unused operating facilities will be sufficient to fund its working capital, debt service and capital expenditure requirements for the near future.

6 RISKS AND UNCERTAINTIES

6.1 Sensitivity Analysis

The Company records transactions and prepares its financial statements in Canadian dollars. For the period ended June 30, 2008, the Company maintained operations in Canada, the United States, and the United Kingdom with business conducted in other countries. International operations are considered financially and operationally self-sustaining. Accordingly, the Company's assets and liabilities are translated into Canadian dollars at year-end exchange rates. Revenue and expense items are translated into Canadian dollars at monthly exchange rates.

To perform sensitivity analysis, the Company assesses the impact on net earnings due to the impact of hypothetical changes in foreign currency exchange rates and interest rates. Information provided by the analysis does not necessarily represent the actual changes in value that the Company would incur under normal market conditions. Necessity demands all variables, other than the specific market risk factor, be held constant. The results of this sensitivity analysis are included below:

6.2 Foreign Currency Exchange Rate Risk

In the second quarter of 2008, 81% (2007 – 74%) of the Company's revenue and 60% (2007 – 58%) of expenditures were denominated in US dollars. As well, 7% (2007 – 10%) of the Company's revenue and 13% (2007 – 14%) of expenditures were denominated in Pounds Sterling. The US dollar exchange rate ($1US equivalent in Canadian funds) averaged $1.02 during the second quarter of 2008 compared with $1.06 during the same period in the prior year. The Pound Sterling exchange rate (₤1 equivalent in Canadian funds) averaged $2.02 during the second quarter of 2008 compared with $2.13 during the same period in the prior year. Using the prior year's exchange rates, revenues in the second quarter of 2008 would have been $18,745,000 higher.

Significant portions of the Company's capital expenditures are also denominated in these currencies and therefore, a natural hedge exists for much of this exposure. However, a net exposure exists for US dollar and Pounds Sterling cash flows that can affect earnings as the Canadian dollar exchange rate changes in relation to these currencies. In the second quarter of 2008, it is estimated that a one-cent change in the value of the Canadian dollar in relation to these currencies would affect earnings before interest and tax by approximately $186,000. The Company has been successful in the past few years in implementing productivity enhancements, which have offset this exchange impact. Ongoing programs are in place; however there is no certainty that such programs will offset the impact of fluctuating exchange rates in the future.

Shareholders' equity includes a currency translation adjustment related to the Company's net investment in self-sustaining subsidiaries. A one-cent change in the value of the Canadian dollar in relation to the US dollar and Pounds Sterling, all other variables remaining constant, would have affected shareholders' equity by approximately $186,000 at June 30, 2008.

The Company has a policy that permits the hedging of a portion of its net foreign currency cash flow. The overall approach to managing these exposures includes identifying and quantifying the exposure position, determining the desired exposure position, and designing an appropriate solution to reduce the exposure. During the second quarter of 2008 the Company hedged 50% of its net US-denominated cash flows on a rolling 3-month basis thereby limiting the exposure of currency movements on its Accounts Receivable. In designing these solutions the Company may, from time to time, use financial derivatives. The Company's derivative policy prohibits the use of derivative products for speculative purposes. The Company has a policy of only entering into derivative transactions with chartered banks.

6.3 Interest Rate Risk

The Company monitors the risk exposure relating to its total debt portfolio. The risk exposure created by floating interest rate debt is managed through interest rate swap transactions with chartered banks. The $20,000,000 and US$17,000,000 swap transactions, which are due to expire on November 30, 2009, have an effective fixed interest rate of 4.33% and 5.37% respectively plus the Company's stamping fee. The Company's stamping fee is currently 1.45% for long-term borrowing and 1.30% for the operating facility.

6.4 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.

7 OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements, other than previously disclosed, that have or are reasonably likely to have an impact on the current or future results of operations of the financial condition of the Company.

8 TRANSACTIONS WITH RELATED PARTIES

The Company had no material transactions with related parties in the second quarter of 2008. All related party transactions were in the normal course of business.

9 LITIGATION SETTLEMENT – PRIOR EXECUTIVE

On April 11, 2008, Vector and VAHS and the remaining two former executives, agreed to a final settlement of their respective claims against each other. The final settlement involved an aggregate payment of $6,300,000 by Vector and VAHS to Messrs. Conway and Parsons, such amounts being covered by booked reserves and, accordingly, such payment had no effect on Vector's earnings from continuing operations before income taxes.

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 the circumstances, were fair and appropriate.

10 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") requires the Company to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. The Company evaluates its estimates on an on-going basis, including bad debts, inventories, work in progress, investments, prepaid expenses, intangible assets, goodwill, future income taxes, litigation, and other contingencies. These estimates are based on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

The accounting policies that have had, or will have, a significant impact on the Company's reported earnings are discussed below:

- For management and financial statement purposes, the Company evaluates the carrying value of inventory and work in progress to determine if provisions are necessary to reduce such carrying amounts to net realizable value or replacement cost as set out in its accounting policies. Estimated future demand, as well as market conditions and external values of inventory items, are evaluated in the determination of net realizable value or replacement cost. If actual market conditions or demand are less favorable than those projected, additional inventory and work in progress provisions may be required. Actual net realizable value or replacement cost could differ materially from estimates made by management for inventory and work in progress valuation purposes.

- The Company follows the liability method of accounting for income taxes. Future income tax assets are recognized only to the extent that management determines it is more likely than not that the future income tax assets will be realized. At June 30, 2008 the Company and its subsidiaries had income tax losses of approximately US $6,355,000 in the United States and approximately £10,478,000 in the United Kingdom, which are available to reduce taxable income in those jurisdictions in future years. The Company has recorded a valuation allowance against the future tax asset associated with the income tax losses in both the United States and United Kingdom. At June 30, 2008 the valuation allowance related to the income tax losses carried forward amounts to $14,145,900. Future changes in the valuation allowance will be based on changes in management's assessment of the likelihood of realizing the future tax asset and will directly affect income tax expense and therefore net income of the Company.

- The Company recognizes revenue when there is persuasive evidence of an arrangement with a customer; the services or products have been performed or delivered to the customer; the sales price is fixed or determinable; and collection is probable. For certain contracts that extend beyond nine months, revenue is recognized when specific work segments are completed as agreed by the customer. Anticipated losses, if any, are fully provided for in the period in which they become apparent. Payments received in advance from customers are recorded as deferred revenue.

Other significant judgments and estimates used in the preparation of the Company's financial statements are noted below:

- The accounting policy for goodwill requires an ongoing assessment of the carrying value of goodwill. As of June 30, 2008, Vector concluded that there was no impairment in the carrying value of goodwill.

- The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. If the financial condition of its customers were to deteriorate resulting in an impairment of their ability to make payments, additional allowances may be required.

- Sigma maintains a defined benefit pension plan for certain of its employees in the United Kingdom. A defined benefit pension plan also exists with respect to the two senior executives whose employment was terminated in 2003. The Company maintains defined contribution pension plans for the balance of its employees in North America and the United Kingdom. Pension related expenses and liabilities for the defined benefit pension plans for current employees are based upon assumptions regarding future compensation increases, return on plan assets, and discount rates. If these assumptions differ from actual performance in the future, or if management changes these assumptions, then the future pension related expenses and liabilities for the defined benefit pension plans would be impacted. Pension related expenses and liabilities for the terminated senior executives are impacted by changes in the discount rate used to calculate the pension obligation. The discount rate is based on the annualized yields of AA corporate bonds for the terms matching the duration of the estimated pension liabilities. This discount rate can change from time to time and can have a significant impact on the estimated actuarial benefit obligation. Changes in the potential obligation related to a change in the discount rate are amortized to income over the period that the youngest member reaches age 55. This pension is not pre-funded and there is no certainty that the estimated obligation will match the actual payments under this plan.

10.1 Recently Issued Accounting Standards

10.1.1 International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. The proposed transition date of January 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for its year ended December 31, 2010. While Vector has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

10.1.2 Inventories

Effective January 1, 2008, the Company adopted the new Section 3031, Inventories. The standard requires inventories to be measured at the lower of cost or net realizable value, disallows the use of a last-in first-out inventory-costing methodology, and requires that, when circumstances which previously caused inventories to be written down below cost no longer exist, the amount of the write down is to be reversed. This new standard did not have a material impact on the Company's earnings, cash flow or financial position.

10.1.3 Capital Disclosures

As a result of new Section 1535, Capital Disclosures, Vector is required to include additional information in the Notes to the financial statements about its capital and the manner in which it is managed. This additional disclosure includes quantitative and qualitative information regarding an entity's objectives, policies and processes for managing capital. The impact of these changes is disclosed in note 12 in the interim consolidated financial statements.

10.1.4 Disclosure and Presentation of Financial Instruments

New accounting recommendations for disclosure and presentation of financial instruments Sections 3862 and 3863, were effective for the Company beginning January 1, 2008. The new recommendations require disclosures of both qualitative and quantitative information that enables users of financial statements to evaluate the nature and extent of risks from financial instruments to which the Company is exposed. The nature of these changes is disclosed in note 13 to the interim consolidated financial statements.

11 CONTROLS AND PROCEDURES

11.1 Internal controls over financial reporting

There have been no changes in the Company's internal control over financial reporting during the six months ended June 30, 2008 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

12 FINANCIAL INSTRUMENTS

The Company has operating lease commitments for equipment and facilities as at June 30, 2008 amounting to approximately $35,896,000 (2007 - $35,774,000). These amounts are mainly payable over the next ten years.

The Company periodically enters into derivative financial instruments, mainly foreign exchange contracts and interest rate swaps used to manage currency and interest rate risk. At June 30, 2008 the Company had two interest rate swap arrangements converting $20,000,000 and US$17,000,000 of debt to a fixed interest rate of 4.33% and 5.37% respectively plus the Company's stamping fee. Both swap transactions were issued through a Canadian chartered bank and expire on November 30, 2009.

Certain of the Sigma employees are covered by defined benefit pension plans. Until April 2008 two prior executives were covered by defined benefit pension plans. As at June 30, 2008, the Company had recorded an accrued benefit liability relating to its defined benefit pension plans of approximately $10,611,000 (2007 – $12,895,000) and had a related unfunded liability at December 31, 2007 of approximately $14,383,000 (2006 - $21,365,000) on an actuarial basis. The latter unfunded liability was discharged as part of the litigation settlement for prior executives described in section 9.2 of this MD&A.

The Vector Aerospace International Limited (DARA) employees and executives are covered by defined benefit pension plans. As at June 30, 2008, the Company had recorded an accrued benefit liability relating to its defined benefit pension plans of approximately $3,734,000.

13 OUTLOOK

13.1 Short-Term

The Company will continue to focus its efforts on improving productivity to enhance profitability in both the helicopter and fixed-wing segments. There will be additional focus on growing revenues by leveraging relationships with existing customers and by broadening the customer base as well as providing value-added ancillary services. The company anticipates that segment earnings as a % of revenues from its UK Helicopter segment for the balance of 2008 will be similar to those of Q2. Overall, the Company expects that operating results for the latter half of 2008 (in aggregate) will be similar to the first half of 2008 (in aggregate).

Overall, assuming that exchange rates do not decline during the remainder of 2008, the Company anticipates that revenues and operating earnings for 2008 will be higher than those of 2007. Sigma will benefit from full year impact of the RSAF T56 contract, continue to service its European T56 customers and maintain the strong activity levels on the Conway engine line.

Atlantic Turbines continues to direct its attention to broadening its customer base geographically, with the opening of the two satellite facilities in Africa. Atlantic Turbines will also focus on expanding its JT15D and PT6A product lines, and on maintaining its activity levels for the PW100.

Activity levels in the helicopter segment in the North American for 2008 are expected to be below those of 2007. Activity levels in the helicopter segment in the United Kingdom for the remainder of 2008 are expected to remain similar to those of Q2.

The Company anticipates that the strong Canadian dollar compared to the US dollar will continue to negatively impact revenues and earnings in 2008 as compared to 2007.

The Company will continue to monitor cash flows through the management of working capital. The higher activity levels at certain operating divisions as well as the DARA acquisition are expected to negatively impact non cash working capital for 2008 as compared to 2007

13.2 Medium to Long-Term

The Company will continue to focus on executing its business strategy through product line diversification, global expansion, and providing quality service. The Company will centre its attention on managing business risks and opportunities in the aviation industry and make investment decisions to maximize shareholder value.

The Company anticipates its operating earnings will increase in the future as a result of efforts to improve operational efficiencies, lower administrative expenses and expansion of its business. The Company further anticipates that earnings from the DARA acquisition will improve from 2010 onwards as benefits from expansion into new international markets are realized.

The Company continues to evaluate growth opportunities, both internal and external, and believes that the future prospects for Vector remain positive.

14 OTHER MD&A REQUIREMENTS

14.1 Outstanding Share Data

The authorized share capital of the Company consists of an unlimited number of first and second preference shares, issuable in series, and an unlimited number of common shares without par value. As at June 30, 2008, there were no preference shares issued and there were 37,661,447 common shares issued and outstanding. In addition, there were share options outstanding to purchase 1,728,500 common shares.