

Court File No.

Allen-Vanguard Corporation.

PROPOSED MONITOR'S FIRST REPORT TO COURT
December 8, 2009

ONTARIO SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c.C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF ARRANGEMENT AND REORGANIZATION
OF
ALLEN-VANGUARD CORPORATION ("APPLICANT" OR THE "COMPANY")
UNDER THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED
AND SECTION 186 OF THE ONTARIO *BUSINESS CORPORATIONS ACT*, R.S.O. 1990, c. B.16, AS
AMENDED

FIRST REPORT TO THE COURT
SUBMITTED BY DELOITTE & TOUCHE INC.
IN ITS CAPACITY AS PROPOSED MONITOR ("PROPOSED MONITOR")

INTRODUCTION

1. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars. Capitalized terms not otherwise defined are as defined in the Initial Order or in the affidavit of Mr. David Luxton sworn December 8, 2009 (the "**Luxton Affidavit**") filed in support of the application for the Initial Order and the Plan of Arrangement and Reorganization for the Applicant (the "**Plan**"), filed as part of the application for the Companies' Creditors Arrangement Act ("**CCA**") proceedings.
2. This report is filed with this Honourable Court for the purpose of advising the Court in respect of a number of factual and procedural matters listed in paragraph 3 below, and to provide the Proposed Monitor's recommendations regarding the proposed Initial Order and the Plan. Given the timing of the CCA process proposed by the Applicant, this Report is also being filed pursuant to section 23(1) of the CCA in respect of the proposed Plan Filing and Meeting Order and the meeting of Affected Creditors to vote on the Plan, and will be referred to in respect of the sanction motion for the Plan if approved by the Affected Creditors, as anticipated.
3. The topics covered in the Report include the following:
 - (i) The Proposed Monitor's prior relationship with the Company;
 - (ii) The business, financial affairs and financial results of the Company;
 - (iii) History of actions taken and alternatives considered by the Company and its advisors to resolve financial challenges;
 - (iv) The Transaction Agreement and the proposed Transaction;
 - (v) The Plan;
 - (vi) Position of the Secured Lenders if a transaction is not completed;

- (vii) The Proposed Monitor's estimated liquidation analysis of the Company;
 - (viii) The Company's Cash Flow Forecast;
 - (ix) Charges in the draft Initial Order;
 - (x) Considerations regarding Plan implementation; and
 - (xi) The Proposed Monitor's Conclusion and Recommendation.
4. In preparing this Report, the Proposed Monitor has relied upon unaudited interim financial information, Company records, the Luxton Affidavit, the sworn affidavit of Mr. Barry Goldberg of Genuity Capital Markets dated December 8, 2009 (the "**Goldberg Affidavit**"), the sworn affidavit of Mr. Glenn Sauntry of BMO Nesbitt Burns Inc. ("**Nesbitt**") dated December 8, 2009 (the "**Sauntry Affidavit**") and discussions with management of the Company and their financial and legal advisors. While the Monitor has reviewed the information, some in draft format, submitted in the abridged time available, the Proposed Monitor has not performed an audit or other verification of such information. Future oriented financial information included in the Report is based on Company management's assumptions regarding future events, and actual results achieved will vary from this information and the variations may be material.

THE PROPOSED MONITOR'S PRIOR RELATIONSHIP WITH THE COMPANY

5. Deloitte & Touche LLP has provided consulting services to the Company in regard to cash management, budgeting, taxation, and financial advisory services over the past two years in addition to assisting in the preparation of corporate tax returns and impairment analyses of goodwill and intangibles, but has not acted in the capacity of an auditor or an accountant. The Proposed Monitor does not consider these prior services to give rise to a conflict of interest nor would these services affect the Proposed Monitor's ability to act independently and to properly consider the interests of the Company and its stakeholders. The Proposed Monitor and its counsel are of the view that the prior involvement of Deloitte & Touche LLP with the Company would not compel a court to disqualify Deloitte & Touche Inc. from acting in the capacity of monitor of the Company in the circumstances of this case pursuant to section 11.7(2)(a) of the CCAA.
6. The Company's auditor is KPMG LLP.

THE BUSINESS, FINANCIAL AFFAIRS AND FINANCIAL RESULTS OF THE COMPANY

7. The head and registered office of the Company is located at 2400 St. Laurent Boulevard, Ottawa, Ontario K1G 6C4. The Company is a corporation governed by the Ontario *Business Corporations Act* ("**OBCA**"). As per the Luxton Affidavit, there are currently approximately 543 employees worldwide with approximately 306 employees located within Canada (See Appendix "A" for current organization chart).
8. The Company is a public company on the Toronto Stock Exchange ("**TSX**") under the symbol VRS. The Company was delisted on the close of business on October 21, 2009.
9. The Company develops and markets technologies, tools and training for defeating and minimizing the effects of improvised explosive devices, other hazardous devices and materials, whether chemical, biological, radiological

or nuclear. The Company's primary customers include the US federal government, the US military, major suppliers to the US military, and numerous other governments and their respective agencies around the world.

10. In June and September 2007, the Company acquired Hazard Management Solutions Limited (“**HMSL**”) and Med-Eng Systems Inc. (“**Med-Eng**”), respectively. The total combined acquisition cost of these companies was approximately \$660.0 million, of which a significant portion was financed through term and subordinated debt.
11. In preparing the financial statements for December 2007, the Company realized it was in default of certain financial covenants under its debt facility and accordingly, the Company’s lender at the time provided a waiver of these defaults and amended the financial covenants under the debt facility for its remaining term.
12. Several months following the entering of a new debt agreement in May 2008 (the “**Initial Credit Agreement**”) with the Company’s current lenders (the “**Secured Lenders**”), the Company could not meet its debt payment obligations due on September 30, 2008 and entered into a series of arrangements with the Secured Lenders to defer principal repayments and financial covenant conditions and related fees, among other things.
13. On December 29, 2008, the Company entered into an amended and restated credit agreement (the “**Amended Credit Agreement**”), which amended and restated the Initial Credit Agreement with more relaxed covenants. As part of the Amended Credit Agreement, certain members of the Secured Lenders (the “**New Facility Lenders**”) also agreed to make available to the Company a new operating loan (the “**New Facility Revolver**”) and a letter of credit facility.
14. In connection with the New Facility Revolver, the Company was required to complete one or more debt or equity financings (each a “**Capital Raise**”) and use some or all of the proceeds thereof to permanently reduce the principal amount outstanding under the Amended Credit Agreement by at least US\$50.0 million (the “**Minimum Payment**”), at the latest by September 30, 2009.
15. If the Company had not completed a Capital Raise and made the US\$50.0 million Minimum Payment by September 30, 2009, then the Secured Lenders could, in certain circumstances, cause the Existing Term Loan (of US\$185.0 million) to become due and payable on demand on January 31, 2010.
16. The Company was subsequently unable to complete the Capital Raise and make the US\$50.0 million Minimum Payment by September 30, 2009. As of the date of this report, the Lenders have not enforced certain specified remedies available to them in the expectation that the Transaction Agreement and the Plan will be approved.
17. In addition to being unable to complete a Capital Raise or make the Minimum Payment, the Company also defaulted on the terms of the Amended Credit Agreement. On June 29, 2009, the Company announced that it had reached an agreement with the Secured Lenders that the US\$4.8 million quarterly principal payment that was due June 30, 2009 would be deferred until September 30, 2009 and that the testing of certain financial covenants would also be deferred. The Secured Lenders granted additional accommodations to the Company on July 10, 2009, July 24, 2009, August 19, 2009 and August 27, 2009.
18. The following table sets out selected consolidated financial information for the periods indicated. The selected consolidated financial information below has been derived from the corresponding consolidated financial statements and accompanying notes for the indicated periods.

Summary of Annual Operating Results
(Amounts in thousands of Canadian dollars)

	Q3 FY2009	FY2008	FY2007	FY2006
Revenues	\$180,574	\$309,005	\$96,172	\$56,844
EBITDA	25,854	51,031	10,029	4,276
Free Cash Flow available for debt repayments	\$(5,905)	\$21,072	\$(8,459)	\$1,737

19. As of June 30, 2009, and as reflected in notes to the interim financial statements of the Company for the nine months ended June 30, 2009, the Company owed an aggregate amount of approximately \$232 million, not including accrued fees or interest, to the Secured Lenders and had a working capital deficiency of approximately \$31 million. The Luxton Affidavit stated that Allen-Vanguard owed the principal amount of US\$199,174,639 (excluding accrued fees, accrued interest and other charges) to the Secured Lenders as at June 30, 2009. The amount disclosed in the interim financial statements is consistent with that reported in the Luxton Affidavit using the then currency rate of \$1.163.
20. As shown in the table above, given the level of free cash flows, the Company has not had the available cash flow to service its debt obligations and has been reliant on waivers of financial covenants and amendments to its facilities with the Secured Lenders. The Secured Lenders also agreed to provide the Company with an additional operating credit facility (the “**Interim Funding**”) as part of the Transaction Agreement (as defined below) as the Company could not continue to operate to a closing of the Transaction (as defined below) without additional liquidity.
21. With the Company’s significant debt-load, its financial position has become increasingly dire throughout 2009. The waivers and amendments referred to above together with the provision of the Interim Funding have allowed the Company to continue operating.
22. On September 12, 2009, the Company announced that the Company, the Secured Lenders and Contego AV Investments, LLC (the “**Plan Sponsor**”), an affiliate of Versa Capital Management, Inc. (“**Versa**”), had entered into a binding transaction agreement (the “**Transaction Agreement**”) setting out the terms and conditions for the proposed transaction pursuant to which the Plan Sponsor would provide a capital injection to reduce the debt owed to the Secured Lenders and assume a portion of that debt on a subordinated basis, if the Plan is approved by the Court and implemented in accordance with the terms of the Transaction Agreement (the “**Transaction**”). The Transaction Agreement and the Transaction are described in greater detail later in this report.
23. The Proposed Monitor understands that for more than a year (approximately eighteen months), the Company conducted a rigorous search for additional capital to pay down the secured debt owed to the Secured Lenders. At the end of this lengthy process, as we will discuss further, the Plan Sponsor is the only investor willing and able to commit to the binding terms of an agreement acceptable to the Secured Lenders and the Company.

HISTORY OF ACTIONS TAKEN AND ALTERNATIVES CONSIDERED BY THE COMPANY AND ITS ADVISORS TO RESOLVE FINANCIAL CHALLENGES

24. In order to address its need for additional capital and liquidity, the Company retained RBC Dominion Securities Inc. (“**RBC Capital Markets**”) in June 2008 to act as financial advisor to the Company and to assist the Company in a search for private investment into the Company.

25. The Proposed Monitor has been advised, that during the months of July and August 2008, the Company had discussions with three (3) potential investors which resulted in the Company receiving one (1) expression of interest for a significant investment position in the Company. In August 2008, the Company received a non-binding term sheet from one of the potential investors with terms based on advanced due diligence already substantially completed by the investor, and with an intended closing date before September 30, 2008 (the “**First Offer**”). However, the final terms proposed by the investor differed materially from the initial proposal and the board of directors of the Company (the “**Board**”) rejected the First Offer on the basis that it was not in the best interest of the Company’s stakeholders.
26. Following the rejection of the First Offer, the Company with the assistance of RBC Capital Markets, expanded its search for other options and opportunities. In our discussions with management, the Proposed Monitor was advised that the Company made investor presentations to a number of identified potential investors.
27. In September 2008, the Company also retained Genuity Capital Markets (“**Genuity**”) to act as a financial co-advisor with RBC Capital Markets in connection with its efforts to raise additional capital and liquidity.
28. The Proposed Monitor has been advised that in late October 2008, representatives of Tailwind Financial Inc. (“**Tailwind**”) met with Genuity to discuss potential opportunities for Tailwind at which time Genuity discussed the possibility of a transaction involving Tailwind and the Company. Tailwind is a special purpose acquisition company (“**SPAC**”) that was required to complete a transaction by April 17, 2009. On November 18, 2008, a Letter of Intent was signed with Tailwind. Our review of the non-binding Letter of Intent indicated that it allowed the Company and its financial advisors to continue to pursue certain opportunities to find investors.
29. We understand that in November 2008, during discussions with the Secured Lenders for revised lending terms, the Company reviewed various options including:
 - Rights Offering to Raise Equity;
 - Business Combination with a SPAC;
 - Sale of a Business Division; or
 - Joint Venture of a Business Division.
30. In late January 2009, the Company entered into a definitive agreement (the “**Tailwind Agreement**”) with a closing set for mid April 2009 under which:
 - Tailwind would acquire, under a potential plan of arrangement, 100% of the issued and outstanding shares of the Company;
 - The Company would become a wholly-owned subsidiary of Tailwind and the current shareholders of the Company would exchange their Company shares for Tailwind shares; and;
 - As a consequence of the dilutive effect of the proposed transaction with Tailwind, the Company had presented a Rights Offering to its shareholders to mitigate the dilution. However, the response to the Rights Offering was limited.
31. In early April 2009, the Company announced that the arrangement agreement in respect of the announced plan of arrangement among the Company, Tailwind and AV Acquisition Corp. (the “**Tailwind Arrangement**”) was terminated and that the Tailwind Arrangement would not proceed. Tailwind advised the Company that it did not believe that it could obtain sufficient shareholder support within the required time to complete the Tailwind Arrangement.

32. Management has advised us that throughout the process from June 2008 to April 2009, the Company had a number of discussions with several strategic buyers, including key customers and other security and defense companies. These discussions did not lead to any concrete interest from such parties.
33. In addition, the Proposed Monitor has been advised that the significant efforts of the Company and its financial advisors to find alternatives to provide liquidity for debt reduction, which included private placement, rights offerings, or potential joint ventures with a strategic partner, had resulted in the following:
- Over 125 potential investors were contacted of which approximately 40 executed Non-Disclosure Agreements and approximately 20 had started some form of due diligence. Over 115 of these potential investors were contacted directly by RBC Capital Markets and Genuity, with the balance of investors being contacted by Tailwind principals and their advisors;
 - The Proposed Monitor understands that Versa first became aware of the opportunity to invest in the Company through Tailwind's process to attract shareholders;
 - None of the parties, other than the provider of the First Offer, Tailwind and the Plan Sponsor, actually made an offer to the Company; and
 - Several parties indicated that they may have been prepared to consider a transaction to acquire the Secured Lenders' debt at a significant discount (with no value to shareholders), although none of these parties actually made a binding offer to do so (other than the Plan Sponsor).
34. In summary, the lack of interest to acquire or to invest in the Company was explained by the following investor feedback, as reported by Genuity in the Affidavit of Barry Goldberg, Principal and Head of Financial Restructuring at Genuity, filed in these proceedings:
- Uncertainties around revenue stability and outlook;
 - Lack of visibility on timing of large orders;
 - Inability to achieve forecasted quarterly revenues for most of the previous two years; and
 - Uncertainty regarding the competitive environment.
35. In June 2009, the Secured Lenders retained the services of Nesbitt to among other things, advise and assist the Secured Lenders in analyzing all strategic alternatives available to the Company, including alternatives to raise capital and/or sell the Company in whole or in part. Nesbitt's views and conclusions regarding the process conducted and the proposed Transaction are set forth in the Affidavit of Glenn Sauntry, Vice Chair of Investment & Corporate Banking of Nesbitt, filed in these proceedings.

THE TRANSACTION AGREEMENT

36. Subsequent to the termination of the agreement with Tailwind the Company announced that it had entered into an exclusivity agreement with Versa, during which time Versa undertook discussions with the Company's stakeholders and performed due diligence with the objective of entering into a binding agreement pursuant to which the Plan Sponsor (or its nominee) would become the new owner of the Company in exchange for agreeing to fund its recapitalization and reorganization.
37. On September 12, 2009, the Company announced the signing of the Transaction Agreement with the Plan Sponsor and all the members of the Secured Lenders pursuant to which, among other things, the Plan Sponsor would provide a new equity contribution and a junior term loan to reduce the Company's existing secured indebtedness. In particular:

- The Secured Lenders would forego a portion of the existing debt and fees owed to them; and
- The remainder of the existing debt would be converted into a multi-year restructured term loan with terms more favourable to the Company and a new revolving credit facility and documentary credit facility.

A copy of the Transaction Agreement was posted on SEDAR on September 22, 2009.

38. Under the terms of the Transaction Agreement, the Secured Lenders, which have first-ranking security over substantially all of the assets of the Company, agreed to a number of significant compromises in order to facilitate the completion of the restructuring contemplated by the Transaction Agreement and the Plan (the “**Transaction**”). Among other things, the Secured Lenders agreed, upon Court approval of the Plan, to:
- forego approximately \$14 million (in debt and fees) owed to the Secured Lenders by the Company;
 - convert the balance of the secured debt of the Company into a restructured term loan on terms that are materially more favourable to the Company (including reduced loan amortization and interest rates and less restrictive financial covenants);
 - provide a new US \$30 million revolving line of credit;
 - provide a new US \$10 million letter of credit facility;
 - provide the Interim Funding to the Company of up to the US dollar equivalent of \$16 million pending completion of the Transaction Agreement;
 - The Secured Lenders would agree to the cancellation without compensation of all of their warrants in the Company; and
 - All securities of the Company, and any claims related thereto, will be cancelled, transferred or discharged for no consideration such that the Plan Sponsor will become the new owner of 100% of the reorganized Company.
39. As discussed above, without the Interim Funding, the Company could not meet its operating commitments including payroll and would potentially be forced to cease operations in short order. In addition, the Company believes that, in the absence of the Transaction Agreement, it will not be able to meet its financial obligations as they become due and will likely be unable to continue to carry on business beyond the very short term.
40. We understand that since the Transaction Agreement was announced in September 2009, no other party has come forward to propose an alternative offer.
41. The Proposed Monitor believes that the Company conducted, with the assistance of its financial advisors, a comprehensive process to maximize the value of the business for the benefit of stakeholders. The Transaction Agreement with the Plan Sponsor is the best offer obtained from that process. This transaction was approved by all of the Secured Lenders, notwithstanding the fact that the members of the Secured Lenders are expected to forego a portion of their secured loans under the terms of the Transaction and are expected to refinance the business going-forward, together with the Plan Sponsor.

THE PLAN

42. Only the Secured Lenders will be affected creditors under the Plan (the “**Affected Creditors**”). The points below summarize additional key elements of the Plan.
43. The Affected Creditors (i.e. the Secured Lenders) are the only class of affected creditors under the Plan. As discussed in greater detail above, the Secured Lenders will forego a portion of its existing debt and fees and the

remainder of the existing debt will be converted into a multi-year restructured term loan with terms more favourable to the Company and a new revolving credit facility and a new documentary credit facility.

44. All other creditors, including unsecured creditors, will not be affected by the Plan.
45. The only other affected stakeholders are the holders of equity interests and equity claims. As discussed above, the existing equity in the Company (shares, options, restricted stock, warrants and any other securities in the Company), and any rights, claims or interests associated therewith, will be cancelled, transferred or discharged for no consideration so that the Plan Sponsor can become the 100% new owner of the Company, as contemplated and required by the terms of the Transaction Agreement in connection with the recapitalization.
46. In October 2009, a Notice of Action was served on the Company. The Notice of Action is seeking approximately \$80.0 million in damages from the Company and other named parties. The Statement of Claim was served on the Company on November 27, 2009. This claim is an equity claim and as such, pursuant to section 6(8) of the CCAA, no Plan can be sanctioned by the Court unless it provides that all claims that are not equity claims are paid in full before any equity claim is paid. As the Secured Lenders are being compromised pursuant to the Plan, this equity claim, like any and all other equity claims, will not receive any distribution from the Plan and, under the terms of the Plan and the Sanction Order, the Company will be discharged of all such claims.

POSITION OF THE SECURED LENDERS IF A TRANSACTION IS NOT COMPLETED

47. In the event that the Transaction is not completed, and absent any proceedings to restrict the exercise of contractual rights against the Company, the Secured Lenders have the right to request the immediate repayment of the Interim Funding. In addition, the interest payments that have been deferred would be immediately payable. In addition, the full principal amount of US\$185 million under the Existing Term Loan could become payable on January 31, 2010. If the Transaction is not completed, the Company will not be in a position to meet these obligations and could well be forced into liquidation.

THE PROPOSED MONITOR'S ESTIMATED LIQUIDATION ANALYSIS OF THE COMPANY

48. Based on the latest available financial statements for the Company, as at June 30, 2009, the Company had total liabilities of approximately \$315 million, of which the Secured Lenders' claim represents approximately \$232 million, not including accrued fees or interest. A summary of the Company's financial results as at June 30, 2009 are included in Appendix "B".
49. The Proposed Monitor's legal counsel, Ogilvy Renault LLP, has conducted reviews of the security held by the Secured Lenders and concluded, based on its review, that the security has been duly registered, filed and recorded in the province of Ontario and creates a valid and binding obligation enforceable against a trustee in bankruptcy of the Company.
50. As at June 30, 2009, the Company had written-down the value of the intangible assets and associated goodwill of the HMSL and Med-Eng transactions by approximately \$516 million in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The book value of the Company's tangible assets totaled approximately \$123 million. Based on the Proposed Monitor's estimated liquidation analysis using information provided by the Company, the liquidation value of the Company would be substantially below the book value of the tangible assets. Even if the realization on the tangible assets was 100%, the Secured Lenders would still suffer a significant shortfall in excess of \$100 million.

51. As a result, in the event of the Company's liquidation, the Affected Creditors would be significantly worse off than under the Plan, and the unsecured creditors would receive no recovery on their claims. Consequently, the shareholders would also suffer a complete loss of their investment and no recovery on the equity claims.
52. A liquidation would also put at risk the Company's approximately 543 employees worldwide and would also have a significant impact on the customers and suppliers.
53. In addition, the Goldberg Affidavit states that it is Genuity's view that given the debt and liquidity situation of the Company, there is no reasonable basis to believe that any further marketing process would result in the emergence of a transaction superior (or even comparable) to the Transaction, or that would permit a restructuring that would see any recovery of value to the Company's current shareholders. The Sauntry Affidavit agrees with Mr. Goldberg's conclusion.

THE COMPANY'S CASH FLOW FORECAST

54. The statement of projected cash flow of the Company as of the 4th day of December, 2009 ("**Cash Flow Statement**"), attached as Appendix "C" to this report, has been prepared by the management of the Company for the purpose described in the Notes to the Cash Flow Statement, using Probable and Hypothetical Assumptions set out in the Notes to the Cash Flow Statement.
55. The Proposed Monitor's review of the Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.
56. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
 - a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
 - b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
 - c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.
57. Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.
58. The Cash Flow Statement has been prepared solely for the purpose described in the Notes on the face of the Cash Flow Statement, and readers are cautioned that the Cash Flow Statement may not be appropriate for other purposes.

59. The Company's Cash Flow Statement is for a period of thirteen (13) weeks from December 4, 2009 to February 26, 2010. The key assumptions used in the Cash Flow Statement are based on a revised fiscal year 2010 Operating Plan. As such, estimated revenues for the first quarter are \$40.4 million. As at November 27, 2009, invoicing for the quarter totaled \$10.9 million and \$20.2 million of backlog was expected to be shipped during the remainder of the quarter. As such, incremental sales of \$9.3 million are required before December 31, 2009 to reach the Company's sales target. The Company's management believes that the sales forecast are reasonable.
60. The Company anticipates tighter payment terms for purchases following the announcement of the CCAA proceedings. As such, the Company has anticipated certain purchase orders planned for the weeks ending December 18, 2009 to January 22, 2010 may have to be paid upon delivery.
61. The Cash Flow Statement shows the Company's use of its Interim Funding to fund the Company's working capital requirements for the duration of the CCAA proceedings.
62. Based on discussions with management of the Company, there are no plans to disclaim or resiliate any agreements as part of the Plan. As such, the Cash Flow Statement does not include any payments for disclaimers or resiliation of any agreements.
63. In addition, based on discussions with management of the Company, there are no known assignments of any agreement as part of the Plan.

CHARGES IN THE DRAFT INITIAL ORDER

64. The draft Initial Order provides for a charge in the amount of \$150,000 for the Proposed Monitor, counsel to the Proposed Monitor, and the Applicant's counsel as security for their professional fees and disbursements incurred before and after the making of the Initial Order in respect of these CCAA proceedings (the "**Administration Charge**"). The Administration Charge has been established based on the respective professionals' previous history and experience with restructuring of similar magnitude and complexity. The Proposed Monitor believes the Administration Charge is required and is reasonable under the circumstances.
65. The directors' and officers' charge ("**D&O Charge**"), as described in the Luxton Affidavit and the draft Initial Order, provides for a charge in the amount of \$750,000 as security for various indemnities provided to the directors and officers by the Applicant in the draft Initial Order.
66. The Proposed Monitor has been advised that the D&O Charge is necessary for the continued service of the Applicant's directors and officers during the Company's restructuring and that the quantum has been calculated relative to certain employee-related obligations of the Applicant for which the directors and officers may be held liable.
67. Given that the Applicant will require the committed involvement of its directors and officers to successfully restructure, the Proposed Monitor believes the D&O Charge is required under the circumstances. The Proposed Monitor has not been provided with detailed information on a per employee basis in order to calculate the potential exposure. However, the Applicant has provided a summary overview of the potential liabilities for the directors and officers which supports the quantum requested.

CONSIDERATIONS REGARDING PLAN IMPLEMENTATION

68. The Transaction Agreement between the Company, the Plan Sponsor and the Secured Lenders is contingent upon a reorganization through a restructuring in order to ensure the Company's future viability.
69. The Proposed Monitor was informed that all of the members of the Secured Lenders support the Plan. As a result, the Proposed Monitor expects that the Plan will be approved at the creditors' meeting as this is the only option that has been presented to ensure the Company's viability going forward.
70. If the Company does not proceed with the Plan, it is likely that the Company will be unable to continue in its current form as the Company is significantly overleveraged and cannot meet its obligations to its creditors. It has not been able to make a principal repayment since June 2008 and has significant liquidity issues.
71. In the event that the Transaction Agreement is not completed, the Secured Lenders have the right to request the immediate repayment of the Interim Funding. In addition, interest payments have been deferred and are payable if the Plan is not completed or if the Transaction Agreement is terminated. In addition, the full principal amount of US\$185 million under the Existing Term Loan could become payable on January 31, 2010. In the event that the Transaction Agreement cannot be completed, the Company would not be in a position to meet its obligations and could be forced into liquidation.
72. The time table for the completion of the proposed CCAA Proceeding is very short. If this process was delayed, the Company will have difficulty maintaining its revenue base and creditors from foreign jurisdictions may seek other available remedies which could further delay the Company in implementing the Plan. The impact of a delay in closing of the Transaction Agreement is not reflected in the Company's Cash Flow Statement.
73. The Proposed Monitor understands that the members of the Secured Lenders are fully aware of the terms of the Plan and therefore the Proposed Monitor considers it timely and appropriate to convene the Creditors' Meeting as soon as reasonably practicable after the commencement of the CCAA proceedings and in the manner proposed under the terms of the draft Plan Filing and Meeting Order.

THE PROPOSED MONITOR'S CONCLUSION AND RECOMMENDATION

74. As mentioned in this report, the Company's financing and sale process has been extensive. Over the past eighteen (18) months the Company has retained professional advisors, including RBC Capital Markets and Genuity, to assist in finding either new investment for the Company or a purchaser. The Proposed Monitor understands that for more than a year, the Company has conducted a rigorous search for additional capital to pay down its senior secured debt. At the end of this lengthy process, the Plan Sponsor is the only investor willing and able to commit to the binding terms of an agreement.
75. The Proposed Monitor believes that the Company has conducted, with the assistance of its financial advisors, a process to maximize the value of the business for the benefit of all stakeholders. The Transaction Agreement with the Plan Sponsor is the best offer obtained from that process, which was approved by the Secured Lenders with the support of their financial advisor, Nesbitt, notwithstanding the fact that the members of the Secured Lenders are expected to forgo a portion of their secured loans under the terms of the Transaction and are expected to refinance the business going-forward, together with the Plan Sponsor.
76. The due diligence of the current proposed Transaction Agreement was commenced by the Plan Sponsor in April 2009 following the termination of the Tailwind Agreement. The due diligence required was extensive, but has

resulted in the current Plan. The Proposed Monitor has not been informed of any other investors currently pursuing the Company.

77. There is only one (1) class of creditor being affected by the Plan, and that class is supportive of the Transaction and is willing to continue supporting the Company subsequent to the Plan's implementation.
78. Other stakeholders of the Company will benefit from implementation of the Plan including employees, customers and suppliers.
79. The Proposed Monitor believes that the Plan is the best course of action for the Company. The Plan is more beneficial to the creditors than a sale or liquidation under the *Bankruptcy and Insolvency Act*. There is no value for the shareholders or other security holders under any available or achievable scenario and, therefore, it is reasonable that their equity interests in, and any equity claims against, the Company be extinguished such that the Plan Sponsor can become the new owner of the Company in exchange for its significant investment into the Company for purposes of funding the Plan and the recapitalization of the Company that is necessary under the circumstances.
80. Absent the Transaction and the Plan, the Company will be faced with the possible liquidation and cessation of its businesses in the very near term. Implementation of the Transaction represents the best available recovery for the Company's various stakeholders.
81. Therefore, the Proposed Monitor supports the Plan, and recommends that this Honourable Court grant the Initial Order, the Plan Filing and Meeting Order and, if the Affected Creditors approve the Plan at the Creditors' Meeting, the Sanction Order.

The Proposed Monitor respectfully submits to the Court this, its First Report.

Dated this 8th day of December, 2009.

Deloitte & Touche Inc.,
In its capacity as Proposed Court-appointed Monitor of
Allen-Vanguard Corporation

Per:



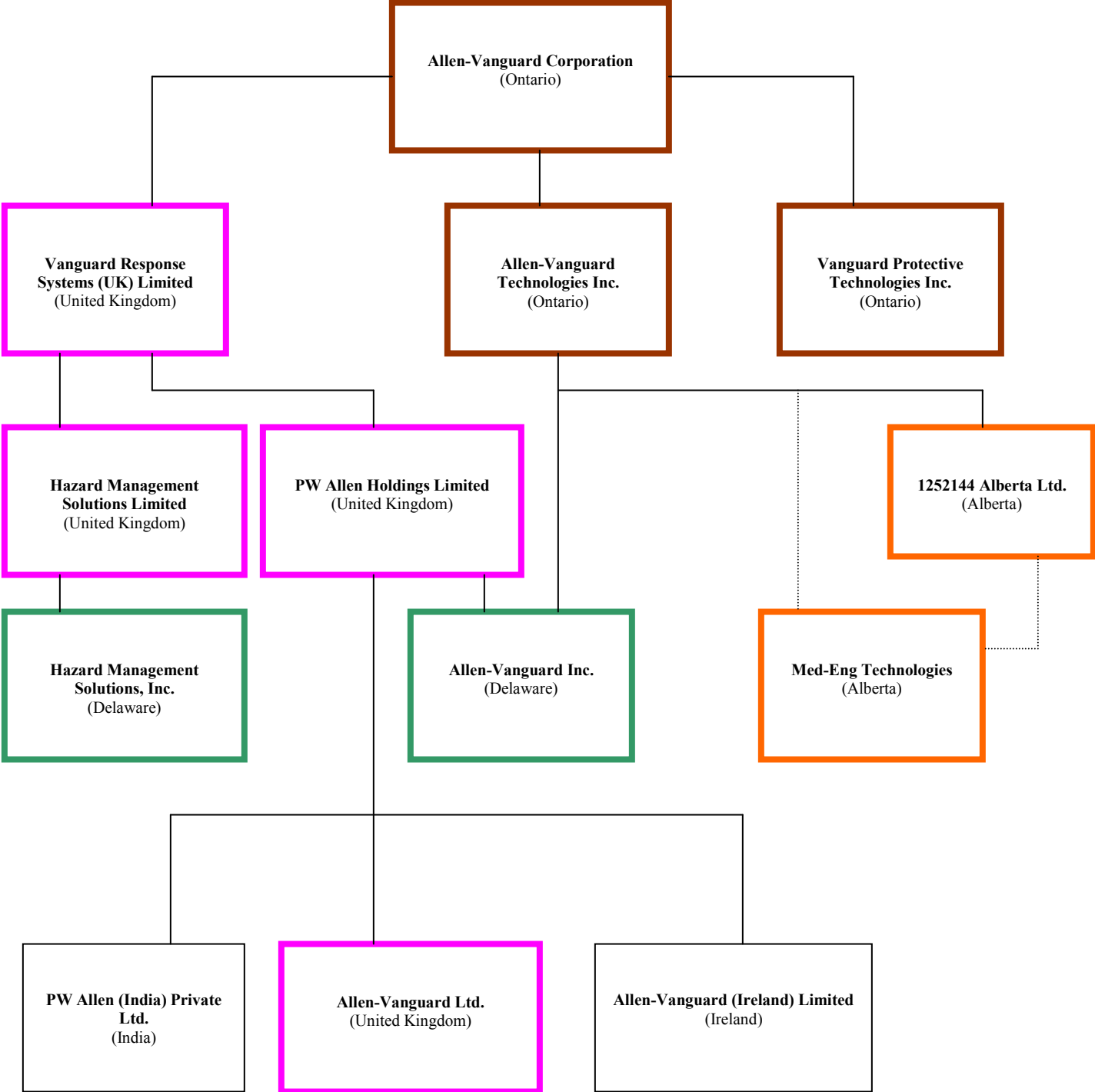
Pierre Laporte
President

Per:



David Boddy
Vice President

Appendix A



Appendix B

Balance Sheet

	FY08	FY09		
Financial Forecast	FY08	Dec-08	Mar-09	Jun-09
ASSETS	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Actual</i>
Current				
Cash	8,522	15,275	6,570	1,971
Restricted cash	4,065	4,782	5,242	5,452
Short-term investments	-	-	-	-
Accounts receivable	29,547	41,203	35,841	35,943
Inventories	36,157	33,423	32,763	34,598
Prepaid expenses and other	2,618	2,921	2,863	3,597
Income taxes recoverable	9,755	9,755	9,744	9,455
Future income taxes	13,506	16,670	13,826	4,957
	104,170	124,029	106,849	95,973
Future income taxes	12,699	9,696	9,562	10,209
Non-current restricted cash	1,976	1,808	1,118	652
Property and equipment	16,693	15,443	14,983	14,337
Goodwill	82,333	82,333	78,384	67,041
Intangibles assets	206,942	203,172	197,299	74,709
Income taxes recoverable	-	-	-	-
Other long-term assets	2,321	2,044	1,898	1,697
	427,134	438,525	410,093	264,618
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Line of credit	8,088	16,443	13,496	17,212
New facility/revolver	-	-	-	-
Accounts payable	36,516	16,778	9,275	15,495
Accrued liabilities	-	35,216	33,734	30,554
Income taxes payable	16,098	21,653	20,993	21,439
Deferred Revenue	13,098	6,252	4,103	2,281
Current portion of long-term debt	10,327	17,804	30,632	39,512
	84,127	114,146	112,233	126,493
Future income taxes	62,021	61,517	59,151	22,220
Long term debt	184,495	196,212	191,589	166,324
	330,643	371,875	362,973	315,037
Shareholders' equity				
Capital stock	543,982	543,982	543,990	543,990
Subordinated debt	-	-	-	-
Equity from Versa	-	-	-	-
Stock options	4,298	5,020	5,530	6,091
Warrants	26,213	29,633	29,633	30,306
Contributed surplus	737	737	737	737
Accumulated other comprehensive income	12	12	12	12
Retained earning (Deficit)	(478,751)	(512,734)	(532,782)	(631,555)
	96,491	66,650	47,120	(50,419)
	427,134	438,525	410,093	264,618

Income Statement

Income Statement					
	FY08	FY09			
		Q1 -09	Q2 -09	Q3 -09	
Financial Forecast	FY08 Actual	Q1 -09 Actual	Q2 -09 Actual	Q3 -09 Actual	YTD
Revenue					
Survivability and Tactical Systems	72,360	17,923	19,489	25,212	62,624
Other	2,140	-	-	-	-
Electronic Systems	199,465	40,404	24,188	9,685	74,277
Systems and Services	35,040	14,383	12,878	12,083	39,344
Revenue	309,005	72,710	56,555	46,980	176,245
Gross profit					
Survivability and Tactical Systems	29,009	7,401	7,107	10,851	25,359
Other	382	-	-	-	-
Electronic Systems	90,950	16,652	10,231	2,829	29,712
Systems and Services	1,769	5,191	3,766	1,458	10,415
Gross Profit	122,110	29,244	21,104	15,138	65,486
Gross Profit %	39.5%	40.2%	37.3%	32.2%	37.2%
Operating expenses					
Selling and administration	53,603	10,992	7,927	10,076	28,995
Research and development costs	17,476	3,295	4,529	2,813	10,637
	71,079	14,287	12,456	12,889	39,632
EBITDA	51,031	14,957	8,648	2,249	25,854
EBITDA %	16.5%	20.6%	15.3%	4.8%	14.7%
Interest on debt	22,103	4,624	4,964	4,721	14,309
Realized foreign exchange loss (gain)	(8,916)	(665)	1,272	2,565	3,172
Unrealized foreign exchange loss	18,929	30,164	6,682	(18,857)	17,989
Stock based compensation and bonuses	3,821	793	450	550	1,793
Other interest (income)	(1,135)	(119)	(65)	217	33
Amortization of property and equipment	4,509	1,653	1,441	1,461	4,555
Acquisition and financing related charges and amortization	146,842	7,278	7,159	6,677	21,114
Amortization of intangible assets and impairment losses	380,033	20	6,029	130,285	136,334
	566,186	43,748	27,932	127,619	199,299
		-	-		
Earnings (loss) from operations	(515,155)	(28,791)	(19,284)	(125,370)	(173,445)
Non-operating items					
Professional Fees - Restructuring	-	1,391	814	287	2,492
Fees - Equity Financing	-	-	-	-	-
Restructuring costs	1,542	-	-	-	-
	1,542	1,391	814	287	2,492
Earnings (loss) after non-operating items	(516,697)	(30,182)	(20,098)	(125,657)	(175,937)
Provision for (recovery of) income taxes	(80,368)	3,821	(481)	(26,473)	(23,133)
					-
Net income (loss)	(436,329)	(34,003)	(19,617)	(99,184)	(152,804)

Appendix C - The Cash Flow Statement

Proposed Monitor's Report on Cash Flow

The statement of projected cash flow (“**Cash Flow Statement**”) of this report of the Company as of the 4th day of December, 2009 has been prepared by the management of the Company for the purpose described in Notes to the Cash Flow Statement, using Probable and Hypothetical Assumptions set out in the Notes to the Cash Flow Statement.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by certain of the management and employees of the Company. Since Hypothetical Assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Statement. We have also reviewed the support provided by management of the Company for the Probable Assumptions, and the preparation and presentation of the Cash Flow Statement.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) The Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Statement;
- b) As at the date of this report, the Probable Assumptions developed by management are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow Statement, given the Hypothetical Assumptions; or
- c) The Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Since the Cash Flow Statement is based on assumptions regarding future events, actual results will vary from the information presented even if the Hypothetical Assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Statement will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by us in preparing this report.

The Cash Flow Statement has been prepared solely for the purpose described in Notes on the face of the Cash Flow Statement, and readers are cautioned that it may not be appropriate for other purposes.

Appendix C (con't)

Allen-Vanguard Corporation
Weekly Cashflow
(in 000s CAD)

For the week ending	Week 1 04/12/2009	Week 2 11/12/2009	Week 3 18/12/2009	Week 4 25/12/2009	Week 5 01/01/2010	Week 6 08/01/2010	Week 7 15/01/2010	Week 8 22/01/2010	Week 9 29/01/2010	Week 10 05/02/2010	Week 11 12/02/2010	Week 12 19/02/2010	Week 13 26/02/2010
Opening cash balance (incl. o/s checks)	5,472	2,584	5,830	3,036	2,883	1,662	1,610	(106)	3,043	2,951	4,601	10,280	12,948
Forecasted Cash receipts:													
Current A/R Collections - AVTI	2,442	164	513	379	1,447	1,190	1,232	650	22	32	-	-	183
Current A/R Collections - AV Corp	-	-	-	-	1	-	-	-	-	-	-	-	-
Current A/R Collections - AV Inc	4	37	38	0	36	19	30	-	-	-	-	-	-
Current A/R Collections - AV Ltd/Ireland	367	3,811	220	-	20	311	678	-	-	-	-	-	-
Current A/R Collections - HMS	219	514	1,243	157	688	34	-	-	-	-	-	-	-
Forecasted A/R Collections - Electronic Systems	-	-	-	-	-	-	-	-	144	1,884	3,081	84	-
Forecasted A/R Collections - SS	-	-	-	-	-	-	-	-	907	2,187	2,400	3,173	333
Forecasted A/R Collections - S & S	-	-	-	-	-	-	-	-	1	1,530	2,410	855	1,015
Budgeted Sales Collections	-	-	-	-	-	-	-	5,400	5,200	46	46	46	46
Budgeted Sales Adjustment	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Tax Refund / (Payment)	(29)	(541)	-	(30)	-	-	-	-	-	-	-	-	(30)
VAT/GST Refund	-	44	-	162	-	44	-	-	170	44	-	-	170
Interest Revenue	6	-	-	-	5	1	-	-	-	6	-	-	-
Transfers In/Out	0	-	-	-	-	-	-	-	-	-	-	-	-
L/C Receipts	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CASH RECEIPTS	3,008	4,030	2,014	668	2,197	1,598	1,939	6,050	6,415	5,729	7,938	4,158	1,717
Forecasted Cash disbursements:													
Current A/P Vendor Payments - AVTI	659	484	586	265	149	199	6	-	-	-	-	-	-
Current A/P Vendor Payments - AV Corp	209	2	19	48	6	-	-	-	-	-	-	-	-
Current A/P Vendor Payments - AV Inc	11	10	7	12	2	1	-	-	-	-	-	-	-
Current A/P Vendor Payments - AV Ltd/Ireland	701	27	207	10	93	-	97	-	-	-	-	-	-
Current A/P Vendor Payments - HMS	123	19	6	211	-	-	132	-	-	-	-	-	-
Proforma Payments	-	-	360	546	231	227	131	179	-	-	-	-	-
Projected Purchases - Booked Orders - North America	-	4	0	26	274	99	973	931	159	-	-	154	-
Projected Purchases - Booked Orders - UK	-	-	90	90	90	112	21	143	251	138	165	187	39
Projected Purchases - Highly Probable Orders - North America	-	104	-	-	30	0	8	13	147	31	29	6	1
Projected Purchases - Highly Probable Orders - UK	-	-	-	-	-	-	-	-	-	-	-	-	-
Budgeted Purchases	-	-	-	-	-	-	-	-	-	-	-	-	38
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AVTI	204	840	20	20	30	-	10	20	20	30	10	20	20
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Corp	22	25	25	26	25	25	25	25	25	25	25	25	25
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Inc	1	3	-	1	-	3	-	1	-	-	3	1	-
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Ltd/Ireland	26	5	7	3	7	19	7	3	3	20	5	7	3
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - HMS	185	12	73	60	133	100	88	212	218	124	38	35	96
Goods Received and Not Yet Invoiced - North America	-	21	0	0	143	65	39	224	-	-	-	-	-
Goods Received and Not Yet Invoiced - UK	-	-	71	13	47	50	54	49	79	-	-	-	-
Other Accruals	111	-	-	-	-	-	-	-	-	-	-	-	-
Payroll (incl. Pension, Benefits and Remittances)	1,236	-	4,220	113	1,351	62	1,488	467	1,778	63	1,464	471	1,778
Sales Commissions	291	-	5	-	-	-	5	-	-	-	5	-	-
Employee Expense Reports	30	172	23	227	97	22	51	42	116	52	51	22	116
Rent	28	-	23	197	19	-	-	153	18	19	-	153	18
Insurance	123	88	6	12	14	0	94	-	-	-	88	6	-
Utilities	2	3	4	14	-	3	0	4	7	-	3	4	11
Bank Charges	5	5	-	-	5	4	1	-	-	8	-	-	-
Restructuring - Severance and Notice	35	-	134	33	17	-	15	-	48	-	12	-	40
Restructuring - Professional Fees	-	-	-	-	-	200	69	75	50	75	-	-	-
Restructuring - Other	270	100	69	399	30	100	-	-	100	-	-	-	-
Professional Fees	30	232	108	285	255	25	25	25	25	405	25	25	25
Principal Payment on Term Loan	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest Payment on Debt Facility (incl. related fees)	-	-	-	-	-	-	-	-	-	-	-	-	-
R&D	-	33	33	33	33	33	33	33	33	33	33	33	33
Capital Expenditures	-	102	102	102	102	102	102	102	102	102	102	102	102
Misc. Op Expenses	-	200	200	200	200	200	200	200	200	200	200	200	200
L/C Disbursements (incl. interest payments)	-	416	-	-	35	-	-	-	44	-	-	-	35
Principal Payment on Old Revolver	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL CASH DISBURSEMENTS	4,303	2,907	6,401	2,944	3,418	1,651	3,655	2,902	3,322	1,426	2,259	1,490	2,580
Funds received from Credit Facility	-	2,123	1,592	2,123	-	-	-	-	-	-	-	-	-
Repayment of Credit Facility	1,592	-	-	-	-	-	-	-	3,185	2,654	-	-	-
Ending cash balance, projected	2,584	5,830	3,036	2,883	1,662	1,610	(106)	3,043	2,951	4,601	10,280	12,948	12,085
Less new facility drawn down	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)	(15,179)
Less Interim Funding Drawn down	-	(2,123)	(3,715)	(5,838)	(5,838)	(5,838)	(5,838)	(5,838)	(2,654)	-	-	-	-
Ending cash balance (adjusted, excluding new facility drawn-down and interim funding drawn-down)	(12,595)	(11,472)	(15,859)	(18,134)	(19,355)	(19,408)	(21,123)	(17,975)	(14,882)	(10,578)	(4,900)	(2,232)	(3,095)

Appendix C (con't)

NOTES TO THE CASH-FLOW STATEMENT

NOTE A – PURPOSE

The purpose of these cash-flow projections is to determine the liquidity requirements of the Company during the CCAA proceedings.

NOTE B - DEFINITIONS

(1) CASH-FLOW STATEMENT

In respect of a Company, means a statement indicating, on a weekly basis (or such other basis as is appropriate in the circumstances), the projected cash-flow of the Company as defined in section 2(1) of the Act based on Probable and Hypothetical Assumptions that reflect the Company's planned course of action for the period covered.

(2) HYPOTHETICAL ASSUMPTIONS:

Means assumptions with respect to a set of economic conditions or courses of action that are not necessarily the most probable in the Company's judgment, but are consistent with the purpose of the Cash-Flow Statement.

(3) PROBABLE ASSUMPTIONS:

Means assumptions that:

- (i) The Company believes reflect the most probable set of economic conditions and planned courses of action, **Suitably Supported** that are consistent with the plans of the Company; and
- (ii) Provide a reasonable basis for the Cash-Flow Statement.

(4) SUITABLY SUPPORTED:

Means that the Assumptions are based on either one or more of the following factors:

- (i) The past performance of the Company;
- (ii) The performance of other industry/market participants engaged in similar activities as the Company;
- (iii) Feasibility studies;
- (iv) Marketing studies; or
- (v) Any other reliable source of information that provides objective corroboration of the reasonableness of the Assumptions.

The extent of detailed information supporting each Assumption, and an assessment as to the reasonableness of each Assumption, will vary according to circumstances and will be influenced by factors such as the significance of the Assumption and the availability and quality of the supporting information.

NOTE C - ASSUMPTIONS

Assumptions	Source	Probable Assumption	Hypothetical Assumption
<u>Opening cash balance (incl. o/s checks)</u>	Based on current bank balances and outstanding checks ledger	x	
<u>Exchange Rate</u>	Exchange rates are updated weekly to Bank of Canada	x	

	quoted rates as of the prior Friday (November 27, 2009) close of business rates																											
<u>Forecast Cash receipts:</u>																												
Current A/R Collections - AVTI	Based on each entity's accounts receivable ledger. Collections are based on individual payment terms and frequent discussions with customers by accounts receivable clerks. Projected collections are updated weekly.	x																										
Current A/R Collections - AV Corp																												
Current A/R Collections - AV Inc																												
Current A/R Collections - AV Ltd/Ireland																												
Current A/R Collections - HMSL																												
Forecast A/R Collections - TS (incl. US)	Based on backlog for each product line, populated by the operations and sales department. Collections are based on estimated shipping date and estimated days sales outstanding of 60 days (with the exception of Lockheed Martin – 30 days). Certain items are manually updated in the forecast as significant delays in shipment are not necessarily timely updated in the backlog ledger:	x																										
Forecast A/R Collections - Electronic Systems																												
Forecast A/R Collections - SS																												
Forecast A/R Collections - S & S																												
Budgeted Sales Collections	<p>Represent incremental sales required to meet management's budgeted sales for each month. This is calculated as follows:</p> <ul style="list-style-type: none"> Budgeted sales = Budget – Invoiced – Backlog <p>Monthly forecast revenues are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Nov. '09</th> <th>Dec. '09</th> <th>Jan. '10</th> <th>Feb. '10</th> </tr> </thead> <tbody> <tr> <td>SS</td> <td>5,831</td> <td>7,927</td> <td>8,441</td> <td>9,568</td> </tr> <tr> <td>S&S</td> <td>3,481</td> <td>2,835</td> <td>5,440</td> <td>3,880</td> </tr> <tr> <td>ES</td> <td>1,307</td> <td>14,181</td> <td>500</td> <td>2,300</td> </tr> <tr> <td>Total</td> <td>10,619</td> <td>24,943</td> <td>14,381</td> <td>15,748</td> </tr> </tbody> </table> <p>Management updates its monthly budget figures by product line periodically.</p> <p>Collections are based on estimated days sales outstanding of 60 days.</p>		Nov. '09	Dec. '09	Jan. '10	Feb. '10	SS	5,831	7,927	8,441	9,568	S&S	3,481	2,835	5,440	3,880	ES	1,307	14,181	500	2,300	Total	10,619	24,943	14,381	15,748		X
	Nov. '09	Dec. '09	Jan. '10	Feb. '10																								
SS	5,831	7,927	8,441	9,568																								
S&S	3,481	2,835	5,440	3,880																								
ES	1,307	14,181	500	2,300																								
Total	10,619	24,943	14,381	15,748																								
Budgeted Sales Adjustment	These adjustments are made to reflect historic cash collection in order to smooth weekly collections.		x																									
Corporate Tax Refund / (Payment)	Management and tax professionals' best estimate of payments/refunds based on historical and forecast operational results.	x																										
VAT/GST Refund	Estimated refunds forecast by each entity based on returns actually filed.	x																										
Interest Revenue	Estimated interest earned on outstanding bank balances.	x																										
Transfers In/Out	Transfers between various entities and bank accounts.	x																										
L/C Receipts	Cash receipt for outstanding collateralized letters of credit. The timing is based on the letters of credit termination	x																										

	date and estimated time for funds to be released to AV.		
<u>Forecast Cash disbursements:</u>			
Current A/P Vendor Payments - AVTI	Based on each entity's accounts payable ledger. Disbursements are based on specific payment terms. Forecast payments are updated weekly.	x	
Current A/P Vendor Payments - AV Corp			
Current A/P Vendor Payments - AV Inc			
Current A/P Vendor Payments - AV Ltd/Ireland			
Current A/P Vendor Payments - HMSL			
Proforma Payments	Based on purchase orders for each entity. These orders are derived from the backlog and inventory replenishment requirements. Payments are based on the forecast receipt date and estimated days payable outstanding ranging from 30 to 45 days (based on specific payment terms) with the exception of certain purchases for the weeks ending December 18, 2009 to January 22, 2010 which have been forecasted to be paid upon delivery. These purchases are included in the "Proforma Payments" line.	x	
Projected Purchases - Booked Orders - North America			
Projected Purchases - Booked Orders - UK			
Projected Purchases - Highly Probable Orders - North America			
Projected Purchases - Highly Probable Orders - UK			
Budgeted Purchases	Estimated material purchases required for the budgeted sales estimates. Budgeted purchases are calculated using estimated gross margin and material component (as a % of total COGS) for each product line: <ul style="list-style-type: none"> • TS – Gross margin 42% and material (% of COGS) 90%; • ES – Gross margin 42% and material (% of COGS) 95%; • SS – Gross margin 41% and material (% of COGS) 90%; and • S&S – Gross margin 30% and material (% of COGS) 5%. Payments are based on the required lead time to manufacture the products (4-8 weeks) for each product line and estimated days payable outstanding of 30 -50 days (consistent with experience during period Jan to May 2009)	x	
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AVTI	Forecast recurring operational costs (office supplies, maintenance, telecommunication, vehicle leases, etc.) that are not included in the current accounts payable ledger (invoice not received or invoice not entered in accounting system)	x	
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Corp			
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Inc			
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - AV Ltd/Ireland			
Operational Expenses - Projected A/P Not Yet Invoiced or Recorded - HMSL			
Goods Received and Not Yet Invoiced	Based on each entity's goods received not yet invoiced	x	

- North America	ledger.		
Goods Received and Not Yet Invoiced - UK	Payment is based on 7 days between reception date and invoice date with an additional 45 days payable outstanding.		
Other Accruals	Accruals for vendor payments to be paid by Allen Vanguard UK	X	
Payroll (incl. Pension, Benefits and Remittances)	Payroll is calculated by payroll administration based on estimated headcount and compensation levels for the forecast period. Payments are based on each entity's pay cycle (bi-weekly in North American and monthly in the UK). These amounts also include bonus payments (based on HR estimates), health insurance costs (based on policies) and pension (based on forecast contributions).	X	
Sales Commissions	Commission amounts and payments are based on estimated sales level and payment terms from the sales force contracts.	X	
Employee Expense Reports	Based on each entity's historical expense report payment and employee travel requirements.	X	
Rent	Based on lease agreements for all facilities.	X	
Insurance	Based on current agreements with Marsh Canada and CAFO.	X	
Utilities	Based on historical monthly or bi-monthly utility costs.	X	
Bank Charges	Based on current banking agreements (minimal fees).	X	
Restructuring - Severance and Notice	Payments relating to prior restructuring plans estimated by HR.	X	
Restructuring - Professional Fees	Restructuring amounts for management advisors, syndicate advisors, corporate counsel and investment bankers based on management's estimates and signed agreements.	X	
Restructuring - Other	Restructuring amounts relating to the Versa transaction for management advisors, syndicate advisors, corporate counsel and investment bankers based on management's estimates and signed agreements. Closing fees for the transaction have not been included in the forecast (approximately \$15 million)	X	
Professional Fees	Audit, tax, goodwill impairment and other professional fees estimated by management. Carlyle fees (\$1.8 million) for previous financing/restructuring work are forecast to be paid at the end of the forecast.	X	
Principal Payment on Term Loan	As per latest amended lending agreements, no principal repayments are forecast until June 2010.	X	
Interest Payment on Debt Facility (incl. related fees)	As per the transaction term sheet with the Secured Lenders, interest is deferred until the transaction is completed. Interest calculations are based on current lending agreements (premiums) and current US Base Rate.	X X	
R&D	R&D expenses are estimated at \$33,000 per week for the entire forecast period. This is significantly lower than the operating plan.	X	
Capital Expenditures	Capital expenditures are estimated at \$102,000 per week	X	

	for the entire forecast period. This is slightly lower than the operating plan.		
Misc. Op Expenses	Miscellaneous operating expenses are estimated at \$200,000 per week and are a contingency for any unexpected costs. These were added to the cash flow as per the Secured Lenders' advisors request.	x	
L/C Disbursements (incl. interest payments)	Cash disbursement to collateralize letters of credit required for specific international contracts.	x	
Principal Payment on Old Revolver	No principal repayments are forecast for the old revolver as per the latest funding agreements.	x	