

SUPERINTENDENT ESTATE NO. 11-2018711

COURT FILE NUMBER B-150741
VANCOUVER REGISTRY

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF APOLLO GROUP MANAGEMENT LTD.
OF THE CITY OF VANCOUVER,
IN THE PROVINCE OF BRITISH COLUMBIA**

REPORT OF THE PROPOSAL TRUSTEE ON THE PROPOSAL

DECEMBER 23, 2015

A. INTRODUCTION

1. On July 23, 2015, Apollo Group Management Ltd. (“**Apollo**” or the “**Company**”) filed a Notice of Intention to File a Proposal (“**NOI**”) pursuant to Part III, Division I of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). FTI Consulting Canada Inc. (“**FTI**”) was appointed as the Trustee (the “**Proposal Trustee**”) under the NOI.
2. The NOI provided an automatic 30 day stay of proceedings (the “**Stay**”). The Stay was then subsequently extended as follows:
 - (a) To October 5, 2015 by an order of the Supreme Court of British Columbia (the “**Court**”) dated August 21, 2015;
 - (b) To November 19, 2015 by an order of the Court dated September 30, 2015; and
 - (c) To December 22, 2015 by an order of the Court dated November 18, 2015.
3. To date, the Proposal Trustee has filed three reports in the Company’s NOI proceedings. The reports of the Proposal Trustee and other information in respect of these proceedings are posted on the Proposal Trustee’s website at <http://cfcanada.fticonsulting.com/ApolloGroupManagementLtd/>.
4. On December 22, 2015 the Company filed its proposal in these proceedings with the Official Receiver in accordance with section 62(1) of the BIA. A copy of the Company’s proposal (the “**Proposal**”) is attached as Appendix A of this report (the “**Report**”).

B. PURPOSE OF THIS REPORT

5. The purpose of this Report is to:
 - (a) Provide background information concerning the Company, its financial situation, the causes of its financial difficulties and the state of the Company's business and financial affairs;
 - (b) Outline the terms of the Proposal;
 - (c) Discuss the conditions that must be satisfied subsequent to creditor approval of the Proposal in order for the Proposal to be successfully completed;
 - (d) Provide an overview of the Proposal Trustee's findings resulting from its preliminary review of preferences and related party transactions as required under the BIA;
 - (e) Compare the amounts distributable under the Proposal to the estimated distribution to the Company's creditors in the event the Proposal does not receive creditor approval and the Company is deemed to have made an assignment in bankruptcy; and
 - (f) Recommend acceptance of the Proposal by the creditors.

C. TERMS OF REFERENCE

6. In preparing this Report , the Proposal Trustee has relied upon unaudited financial information prepared by the Company's management, the Company's books and records, other information available to the Proposal Trustee and discussions with various parties (collectively, the "**Information**").

7. Except as described in this Report:
 - (a) The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - (b) The Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
8. Future oriented financial information reported or relied on in preparing this Report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
9. Unless otherwise defined, the capitalized terms used in this Report are as defined in the Proposal and this Report should only be read in conjunction with the Proposal. Details of the Proposal are outlined in this Report.
10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

D. BACKGROUND/CAUSES OF FINANCIAL DIFFICULTY

11. Apollo was founded in 1985 with the original intention of being used as a wine importer for Greek wines. However, in 1989 it purchased 184 acres of land on Barnston Island, an unincorporated island located on the Fraser River in the Greater Vancouver metropolitan area of British Columbia.
12. In 1994 Apollo leased the land to Opus Cranberries, who operated the property as a cranberry farm.

13. In 2007 Apollo purchased the business from Opus Cranberries and over the next six years acquired additional land adjacent to Apollo's existing property to bring the total land holdings for cranberry farming to 271 acres (the "**Cranberry Farm**").
14. Apollo's crop is sold exclusively to Ocean Spray Cranberries Inc. pursuant to the terms of a Collective Marketing Agreement.
15. Over the past 3 years Apollo's production has ranged from 38,000 barrels to 42,000 barrels.
16. On an annual basis, the value of the crop yield is based on a per barrel price set by Ocean Spray which is paid by bi-monthly instalments over a period ranging from 12 to 20 months.
17. The acquisition of the Cranberry Farm was financed by debt, primarily provided by Farm Credit Canada ("**Farm Credit**").
18. Over a period of several years, Apollo advanced approximately \$5.9 million from its cash flow to related parties with the majority of the advances made to Epta Properties Ltd. ("**Epta**"), a real estate development company.
19. As a result of the related party loan advances the Company was unable to make its loan payment to Farm Credit in November 2013 causing Apollo to be in breach of its loan covenants with Farm Credit who issued a Notice of Default in December 2013.
20. Farm Credit agreed to waive the breach for a period of one year to allow the Company to return to compliance with its loan covenants. However, Apollo was not able to cure its default within the one year extension period.
21. Apollo failed to make its next scheduled loan payment to Farm Credit which was due in February 2014.

22. In May 2014, Apollo arranged for a \$4,000,000 loan from First West Credit Union which was used to bring Farm Credit current on its loans. However, the residual funds were advanced by Apollo to Epta resulting in the Company being unable to pay the scheduled quarterly payments to Farm Credit in August and November of 2014.
23. In January 2015 Farm Credit issued a letter to Apollo making demand for repayment of its loans.
24. Despite negotiations between Apollo and Farm Credit, the parties were unable to agree on the terms of a forbearance agreement, and in May 2015, Apollo sought a stay of proceedings pursuant to the Farm Debt Mediation Act (the “**FDMA**”).
25. Concurrent with its attempt at mediation, Apollo was pursuing other options including refinancing Farm Credit’s loans or selling its interest in the Cranberry Farm.
26. In July 2015, Apollo concluded negotiations with D.R. Barnston Holdings Ltd. (the “**Purchaser**”) on the terms of a sale of the Cranberry Farm (the terms of which are detailed in a subsequent section of this Report).
27. On July 17, 2015 Farm Debt Mediation Service sent a letter to Apollo notifying Apollo that it would terminate the stay of proceedings under the FDMA effective July 24, 2015.
28. As a result, Apollo filed the NOI pursuant to the BIA in order to preserve its ability to close the sale transaction it had entered into with the Purchaser, in addition to receiving the revenue from the 2015 crop yield.

E. PURCHASE AND SALE AGREEMENT

29. As noted above, the Company entered into a Purchase and Sale Agreement on July 15, 2015 (the “**Sale Transaction**”). The terms of the Sale Transaction are summarized as follows:
- (a) The Purchaser will acquire the Cranberry Farm in addition to all of the Company’s buildings, equipment, permits and contracts required to operate the business;
 - (b) The purchase price is \$24,875,000;
 - (c) A deposit of \$500,000 was provided (the “**Deposit**”);
 - (d) The Company retains its interest in the 2015 crop yield and is entitled to collect the related account receivable, subject to the rights of its secured creditors; and
 - (e) The closing date of the Sale Transaction is February 11, 2016.
30. As noted in the Proposal Trustee’s Second Report to Court dated September 23, 2015, the Company negotiated the release of the Deposit to fund payments of interest and principal to its secured creditors during these proceedings.
31. The Proposal Trustee is not aware of any circumstances that would affect the timing of the closing of the Sale Transaction.

F. OVERVIEW OF THE PROPOSAL

32. The purpose of filing the Proposal is to allow the Company to close the Sale Transaction which would provide the funding necessary to repay all of the Company's unsecured creditors (the "**Unsecured Creditors**") in full.
33. The Report provides an overview of the terms of the Proposal. The Report is not a substitute for reading the Proposal and creditors are strongly encouraged to review the Proposal in its entirety prior to voting on the Proposal. Creditors are also encouraged to discuss the terms of the Proposal with their legal counsel.
34. The substantive terms of the Proposal are:
- (a) Proceeds from the closing of the Sale Transaction will be made available to the Proposal Trustee for payments (the "**Proposal Funds**") as follows:
 - i. Any Crown Claims relating to amounts withheld from employees and that are of a kind that could be subject to a demand under subsection 224(1.2) of the Income Tax Act, any provision of the Canada Pension Plan or the Employment Insurance Act that refers to subsection 224(1.2) of the Income Tax Act, or any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the Income Tax Act, and were unremitted as at the date of the NOI are to be paid within six months following the date of Court approval of the Proposal;
 - ii. Immediately after the date of Court approval of the Proposal, employees and former employees will be paid their priority claim for unpaid salaries and wages up to a maximum amount of \$2,000 per employee (the "**Employee Priority Claims**") as required by the BIA;

- iii. Any other claims given priority by subsection 136(1) of the BIA (“**Other Priority Claims**”) will be paid in full prior to any distribution to the Unsecured Creditors; and
 - iv. Payment in full of the Proven Claims of Unsecured Creditors.
- (b) Upon payment of the amounts described above, the claims of the Unsecured Creditors, Employee Priority Claims and Other Priority Claims shall be released as against the Company and its directors and officers.
35. It is a condition precedent to the implementation of the Proposal that the Sale Transaction shall have closed.
36. Pursuant to section 147 of the BIA, payments of the Proposal Funds are subject to a levy of 5% payable to the Superintendent of Bankruptcy.
37. The Company is required to hold a meeting of its Unsecured Creditors (the “**Meeting**”) to consider and vote on the Proposal. The Meeting has been scheduled for January 12, 2016 at 10 am PST at Suite 1500, 701 Granville Street, Vancouver, BC, V7Y 1C6.
38. In order for the Proposal to be accepted, two-thirds in dollar value and over 50% in number of the Unsecured Creditors present and voting, in person, by proxy or by voting letter at the Meeting, must vote in favour of the Proposal.
39. If the Unsecured Creditors accept the Proposal, it must also be approved by the Court. Rejection of the Proposal (either by the Unsecured Creditors or the Court) would result in the Company being deemed to have made an assignment in bankruptcy.

40. Up to five inspectors may be appointed at the Meeting. The inspectors shall have the following powers, but will have no personal liability to the Company or other creditors:
- (a) To advise the Proposal Trustee in connection with its actions under the Proposal or any amendment thereto as the Proposal Trustee may, from time to time, request;
 - (b) To advise the Proposal Trustee concerning any dispute which may arise as to the validity of claims of Unsecured Creditors under the Proposal;
 - (c) To extend the Distribution Date and/or Effective Date provided for under the Proposal; and
 - (d) To advise the Proposal Trustee in respect of such other matters as may be referred to the inspectors by the Proposal Trustee.

G. CREDITOR CLAIMS

41. Pursuant to the provisions of the BIA, creditors are not required to submit proofs of claim until after the filing of the Proposal and therefore the claims of creditors have not been received or vetted by the Proposal Trustee at this time.
42. A list of the known creditor claims is summarized in the Statement of Affairs (“SOA”) filed by the Company with the Proposal Trustee, which is also included in this mailing. The SOA is an estimate of the creditor claims and can vary materially from the Proven Claims filed with the Proposal Trustee as noted previously.

Secured Creditors

43. The claims of the Company's secured creditors will not be affected by the Proposal. The Company will continue dealing with the secured creditors in accordance with the arrangements agreed upon between the secured creditors and the Company. A summary of the secured creditor claims and the amount projected to be owing as at the scheduled closing date of the Sale Transaction is as follows:

Secured Creditors	Amounts Outstanding at July 23, 2015	Projected Balance February 11, 2016
Farm Credit Canada	17,296,950	17,500,000
First West Credit Union	4,000,000	3,100,000
HSBC	1,029,169	630,000
DB Barnston Investment LP	1,300,000	1,300,000
	23,626,119	22,530,000

44. The projected balance as at February 11, 2016 reflects management's estimates taking into account current balances and payments expected to be made prior to closing the Sale Transaction.
45. The Proposal Trustee has not sought an independent review of the security documents for each of the Company's secured creditors and does not anticipate instructing its legal counsel to conduct one on the basis that if the Sale Transaction closes, it would appear that all of the creditors would be paid in full.

Crown Claims

46. As at the date of the NOI, the Company did not owe any amounts to Canada Revenue Agency ("CRA") for unpaid source deductions and CRA has not contacted the Proposal Trustee to advise it of any amounts outstanding.

Employee Priority Claims

47. The Proposal Trustee is not aware of any amounts owing to employees or former employees as at the date of the NOI which would result in a priority claim pursuant to the BIA.

Other Priority Claims

48. The Proposal Trustee is not aware of any claims that may arise pursuant to subsection 136(1) of the BIA.

Unsecured Creditors

49. The Proposal is being made to the Unsecured Creditors of Apollo. According to the SOA, the estimated amount of claims from Unsecured Creditors is approximately \$1.3 million.

H. CONDUCT OF DEBTOR

50. If Apollo were to become bankrupt, there are certain transactions that could be voided by a trustee in bankruptcy, in order to increase the recovery to Apollo's Unsecured Creditors. These transactions would include transactions concluded with the intention of preferring one creditor over others, or selling an asset below market value.
51. The Proposal Trustee completed a preliminary review of the Company's banking activities for the twelve month period preceding the date of the NOI. The Proposal Trustee's preliminary review did not identify any unusual payments to vendors or others, or any unusual transactions suggesting an intention to prefer one creditor over others, or the sale of assets below market value

52. The Proposal Trustee has monitored the Company's activities since the date of the NOI and is not aware of any unpaid post-filing obligations.
53. The Proposal Trustee has noted movements of cash as between Apollo and related companies, however the amounts have substantively been repaid to enable Apollo to meet its post-filing obligations and maintain a positive cash balance.
54. The Proposal Trustee has observed that the Company has been working diligently and in good faith to formulate the Proposal and provide all relevant information to the Proposal Trustee.

I. ESTIMATED DISTRIBUTION IN THE EVENT OF A BANKRUPTCY

55. Under the terms of the Proposal, the claims of the Unsecured Creditors are to be paid in full, subject to the closing of the Sale Transaction.
56. In the event that the Proposal is not accepted by the Unsecured Creditors or approved by the Court and Apollo is deemed bankrupt, there is a possibility that the Sale Transaction could still be closed.
57. However, a bankruptcy of Apollo may introduce a level of uncertainty with respect to the Sale Transaction that could negatively affect the recovery for the Unsecured Creditors.
58. If the Sale Transaction were closed by a trustee in bankruptcy, the payments to Unsecured Creditors would be the same (ie. payment in full).
59. Accordingly, the Proposal Trustee is of the view that closing the Sale Transaction and implementing the Proposal represents the lower risk alternative for the Unsecured Creditors to maximize their recovery.

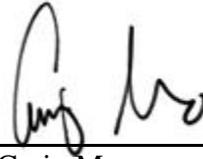
J. REMUNERATION OF TRUSTEE

60. The Proposal Trustee's fees are based on the time spent by the Proposal Trustee and the various members of its staff at their respective standard billing rates plus any direct out-of-pocket expenses incurred. All administrative expenses and expenses of the Proposal Trustee will be taxed by the court.

K. SUMMARY COMMENTS

61. As indicated in the Report and the Proposal, if the Proposal is accepted by the Unsecured Creditors and approved by the Court, the Unsecured Creditors will receive payment of their claims in full upon closing of the Sale Transaction.
62. It is the Proposal Trustee's view that the Sale Transaction must be protected and any actions that could put the closing of the Sale Transaction at risk, must be avoided.
63. The recovery to Unsecured Creditors under the Proposal would likely be the same as the recovery in a bankruptcy, however, the implementation of the Proposal reduces the risks that may be associated with the company being deemed bankrupt.
64. Accordingly, the Proposal Trustee recommends that the Unsecured Creditors accept the Company's Proposal.
65. All of which is respectfully submitted this 23rd day of December, 2015.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee under a NOI
filed by Apollo Group Management Ltd.



Name: Craig Munro
Title: Managing Director,
FTI Consulting Canada Inc.