

District of: British Columbia
Division No.: 03 - Vancouver
Court No.: 11-2967948
Estate No.: 11-2967948

**IN THE MATTER OF THE BANKRUPTCY OF
ADVENTUS OPPORTUNITY SERVICES INC.**

**OF THE CITY OF VANCOUVER
IN THE PROVINCE OF BRITISH COLUMBIA**

TRUSTEE'S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION

August 10, 2023

BACKGROUND AND CAUSES OF INSOLVENCY

Background

1. Adventus Realty Trust (“**ART**”) is a private Real Estate Investment Trust (a “**REIT**”) that was formed in early 2012. ART is based in Vancouver, British Columbia, and, together with its affiliates (collectively, “**Adventus**”) invested in suburban commercial real estate in the suburban office markets of Chicago, Illinois and Atlanta, Georgia.
2. Adventus Opportunity Services Inc. (“**AOSI**”) is a wholly-owned affiliate of ART.
3. Adventus’s real estate portfolio consisted of thirteen income producing properties (some of which include multiple buildings) and one parcel of vacant land. Each of the income producing properties is subject to mortgage debt, with an aggregate total of approximately US\$705 million outstanding.
4. Adventus has a complex organizational structure, as shown in **Appendix A**. Each of the properties is held in a separate US-based special purpose entity, each of which is a limited partnership (each an “**SPE**”). 99.5% of the equity interests in each of the SPEs is held by one of two US-based REITs (“**REIT1**” and “**REIT2**”) that are indirect subsidiaries of ART. The remaining 0.5% of the equity interests in the SPEs are held by the general partners of REIT1 or REIT2, respectively.

Causes of Insolvency

5. The COVID-19 pandemic and macro-economic factors created strong financial headwinds for Adventus and the US suburban office real estate market generally. Among other things:
 - a) Office space downsizing trends generally led to declining occupancy and nominal new leasing activity for Adventus's real estate portfolio;
 - b) Rapidly rising US interest rates caused significant increase in Adventus's debt service costs in 2022 and 2023 as the majority of Adventus's mortgage debt has variable rates;
 - c) Debt markets in the United States for commercial real estate were highly illiquid for a significant period of time after the COVID-19 pandemic which impacted Adventus' ability to refinance its mortgage portfolio and raise additional capital to fund operations; and
 - d) Adventus had significant capital requirements to maintain and lease the real estate portfolio and did not have sufficient cash flow to continue with such activities.
6. Each of the above factors severely impaired the Adventus's liquidity position and put pressure on Adventus's leveraged capital structure. Adventus's cash needs were expected to continue to exceed the cash generated by the real estate portfolio for the foreseeable future.
7. In June 2022, in an attempt to address the situation, Adventus engaged a global investment bank to conduct a strategic process and explore potential merger, sale or recapitalization opportunities. The process was overseen by a special committee of independent directors of the board. The process involved discussions with multiple interested parties but did not lead to any actionable transaction.
8. In January 2023, following the failure of the strategic process, Adventus formed a restructuring committee comprised of two independent directors and engaged restructuring advisors to explore and evaluate strategic alternatives for addressing its liquidity position and capital structure. This process included engaging in discussions with certain existing stakeholders and third parties to attempt to raise new capital and restructure Adventus's existing debt to permit operations to continue in the ordinary course. These efforts ultimately proved unsuccessful and Adventus was unable to raise any new capital or restructure any of its existing debt.

9. The mortgage debt on all but one of Adventus' properties is in default and "cash sweeps" have been implemented by the lenders whose mortgages are in default, whereby cash flow produced by the properties is retained by the mortgage lender to pay debt service and certain other amounts. Furthermore, the Trustee understands that based on the most recent estimates of value obtained by Adventus, each of its properties has a current estimated realizable value below the level of the applicable mortgage debt.
10. Adventus has also been the subject of other enforcement action by certain of its mortgage lenders due to the defaults under the mortgage debt. One property was recently removed from the portfolio through the foreclosure sale of equity of the relevant SPE pursuant to the Uniform Commercial Code by the mortgage lender. Another property has been in receivership for some time, with the potential sale offers for such property failing to reach the Receiver's reserve price at auction on July 27, 2023. On July 21, 2023, another mortgage lender commenced a foreclosure action in respect of an Adventus property before the Circuit Court of Cook County and subsequently filed a motion seeking the appointment of a receiver in respect of the property with the motion scheduled to be heard on August 11, 2023.
11. REIT1 and REIT2 are in the process of winding down operations and are in discussions with the applicable parties for the surrender or disposal of the balance of the properties.

APPOINTMENT OF TRUSTEE IN BANKRUPTCY

12. On July 21, 2023, AOSI and certain other Canadian affiliates filed assignments in bankruptcy pursuant to section 49(1) of the *Bankruptcy and Insolvency Act* (the "BIA"). Certificates of Bankruptcy for were issued on the same date by the Official Receiver appointing FTI Consulting Canada Inc. as Trustee. A copy of the Certificate of Bankruptcy for AOSI is attached hereto as **Appendix B**.

PRELIMINARY EVALUATION OF ASSETS AND SECURITY INTEREST

Preliminary Evaluation of Assets

13. The assets of AOSI are as follows:
 - a) Cash on hand at the date of bankruptcy; and
 - b) Equity interests in Adventus US Opportunity GP LLC (the "AUH Equity Interests")
14. Cash on hand at the date of bankruptcy was C\$8,001.93 and US\$284.39.
15. The estimated realizable value of the AUH Equity Interests is nil.

Security Interest

16. ART as borrower, together with Adventus Realty Canada Holdings Limited Partnership (“**ARCH**”) as co-borrower and AOSI, along with certain other Canadian affiliates, as guarantors, entered into a Commitment Letter dated July 20, 2021 (the “**Grofondi Loan Agreement**”), with Grofondi Inc. (“**Grofondi**”), pursuant to which Grofondi agreed to provide a non-revolving loan of \$50 million (the “**Grofondi Debt**”). The outstanding amount of the Grofondi Debt as at the date of bankruptcy is estimated to be approximately \$51.6 million.
17. Pursuant to a Guarantee Agreements dated July 20, 2021 (the “**Guarantees**”), AOSI has guaranteed the Grofondi Debt.
18. Pursuant to a general security agreement dated July 20, 2021 (the “**AOSI GSA**”), the Grofondi Debt is secured by a security interest in all the present and after acquired property of AOF, other than the Excluded Collateral (as defined in the GSA).
19. Pursuant to the AOSI GSA, the Excluded Collateral is its partnership interest in Adventus US Opportunity LP (“**USOLP**”); provided that any amounts or other property distributed by USOLP shall not form part of the Excluded Collateral.

POSSESSION OF BOOKS AND RECORDS

20. The Trustee has taken steps to take possession of the books and records of AOSI.

CONSERVATORY AND PROTECTIVE MEASURES

21. The Trustee has frozen the bank accounts and taken steps to take possession of the cash on hand at appointment.
22. Given the nature of the assets of AOSI as described earlier in this report, the Trustee has taken no further conservatory or protective measures.

PROVABLE CLAIMS AND DESCRIPTION OF CREDITORS

23. The claims disclosed on the statements of affairs of the AOSI¹ are summarized as follows:

¹ Excluding the deficiency claim of the secured creditor.

	AOSI
	\$000
Secured Claims	50,000.0
Unsecured Claims:	
Third party	15.6
Related party	0.0
Total Unsecured Claims	15.6

24. The secured claim is the estimated amount of the Grofondi Debt. The statements of affairs include only the principal amount. The total amount outstanding including interest is estimated at approximately \$51.6 million.
25. The third-party unsecured creditors of AOSI are primarily accounting and tax service providers.

LEGAL PROCEEDINGS, TRANSFERS UNDERVALUE, PREFERENCE PAYMENTS

26. There are no known pending legal proceedings commenced by AOSI.
27. There are no known pending legal proceedings commenced against AOSI.
28. The Trustee has not identified any potential transfers at undervalue or potential preference payments.

THIRD-PARTY DEPOSITS AND GUARANTEES

29. The fees and expenses of the Trustee have been guaranteed by REIT1 pursuant to a fee guaranty and retainer agreement dated July 20, 2023 (the “**FGRA**”). The FGRA covers the bankruptcies of ART, AOSI and certain other Canadian affiliates. Pursuant to the FGRA, REIT1 has guaranteed the costs of the statutory administration of the estates only, which shall not include fees and expenses of the Trustee or its legal counsel to pursue claims or causes of action of the bankrupt entities. The fee guaranty is limited to \$300,000 in the aggregate for the bankruptcies.
30. Pursuant to the FGRA, REIT1 provided a deposit of \$300,000 to FTI Consulting Canada Inc. in respect of the fee guaranty (the “**Deposit**”). The primary responsibility for the payment of the costs of the Trustee lies with the estate and will be paid first from available realizations of estate assets, if any; the Deposit and guaranty are only accessories covering any unpaid portion of the primary obligation.

31. Pursuant to the FGRA, REIT1 has confirmed that the Deposit did not, directly or indirectly, in whole or in part, come from assets that would otherwise be estate assets. The Deposit shall not be transferred or paid to any trustee which replaces or substitutes FTI as trustee in any of the bankruptcies.

TRUSTEE'S INTENTION TO ACT FOR SECURED CREDITOR

32. There is no current intent for the Trustee to act for the secured creditor.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

33. The assets of AOSI consist of its current cash balances and the AUH Equity Interests. REIT1 and its U.S. based affiliates (collectively “**Adventus US**”) are in discussions with their lenders and special servicers regarding the disposition of the various properties Adventus US holds in order to wind-down their affairs. Based on information made available to the Trustee, the values of the properties are insufficient to repay the mortgage lenders. Accordingly, the only asset that may result in incremental realizations for REIT1 is a small, unencumbered land parcel.
34. Based on the information made available to the Trustee and as noted above, the estimated realizable value of the AUH Equity Interests, is nil. Furthermore, any realizations from the assets of AOSI would be subject to the secured claim of Grofondi. Accordingly, it is anticipated that there will be no distribution to unsecured creditors of AOSI.

OTHER MATTERS

35. The Trustee is an affiliate of FTI Consulting, Inc. Prior to the filing of the assignments in bankruptcy, FTI Consulting, Inc. served as financial advisor to the Adventus. FTI Consulting, Inc. continues to serve as financial advisor to Adventus US and its Canadian affiliate, Adventus Capital Partners Ltd.

FTI Consulting Canada Inc.

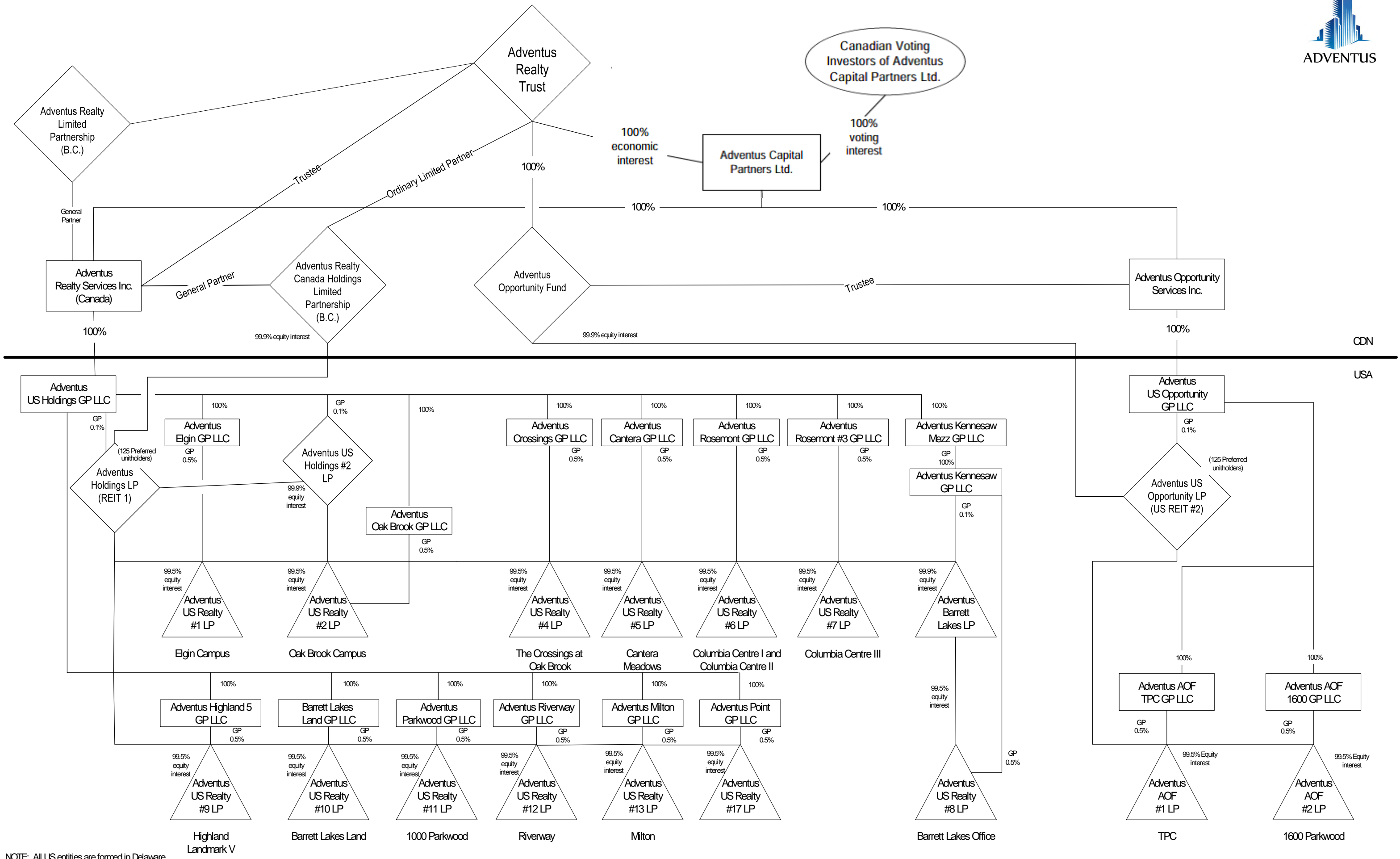
In its capacity as Trustee in Bankruptcy of
Adventus Opportunity Service Inc.
and not in its personal capacity



Per:
Mike Clark, LIT
Senior Director

Appendix A

Organizational Chart



NOTE: All US entities are formed in Delaware

Appendix B

Certificate of Bankruptcy



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of: British Columbia
Division No.: 03 - Vancouver
Court No.: 11-2967948
Estate No.: 11-2967948

In the Matter of the Bankruptcy of:

Adventus Opportunity Services Inc.

Debtor

FTI CONSULTING CANADA INC.

Licensed Insolvency Trustee

Ordinary Administration

Date and time of bankruptcy:	July 21, 2023, 14:59	Security:	\$0.00
Date of trustee appointment:	July 21, 2023		
Meeting of creditors:	August 10, 2023, 10:00 Via Tel. Conference (866) 840-8976 Conference ID# 316 561 389 Vancouver, British Columbia Canada,		
Chair:	Official Receiver		

CERTIFICATE OF APPOINTMENT - Section 49 of the Act; Rule 85

I, the undersigned, official receiver in and for this bankruptcy district, do hereby certify that:

- the aforementioned debtor filed an assignment under section 49 of the *Bankruptcy and Insolvency Act*;
- the aforementioned trustee was duly appointed trustee of the estate of the debtor.

The said trustee is required:

- to provide to me, without delay, security in the aforementioned amount;
- to send to all creditors, within five days after the date of the trustee's appointment, a notice of the bankruptcy; and
- when applicable, to call in the prescribed manner a first meeting of creditors, to be held at the aforementioned time and place or at any other time and place that may be later requested by the official receiver.

Date: August 09, 2023, 17:12

E-File/Dépôt Electronique

Official Receiver

300 Georgia Street W, Suite 2000, Vancouver, British Columbia, Canada, V6B6E1, (877)376-9902

Canada