True North Commercial REIT Reports Q1-2023 Results

Strategic disposition of non-core property in Ontario along with continued leasing momentum

124,100 sq ft leased/renewed with a WALT of 3.84 years during Q1-2023

/NOT FOR DISTRIBUTION IN THE U.S. OR OVER U.S. NEWSWIRES/

TORONTO, ON – May 9, 2023 – True North Commercial Real Estate Investment Trust (TSX: TNT.UN) (the "REIT") today announced its financial results for the three months ended March 31, 2023.

"Despite a challenging operating environment, positive leasing momentum continued in the first quarter of 2023" stated Daniel Drimmer, the REIT's Chief Executive Officer. Management will remain focused on executing our previously announced strategic initiatives that will help strengthen the REIT's financial and liquidity position.

Q1 Highlights

- Completed the sale of 400 Carlingview Drive, Toronto, Ontario on March 10, 2023 for a sale price of $7,250. The proceeds of disposition net of costs were $7,006.
- Entered into an unconditional agreement of purchase and sale to dispose of 360 Laurier Avenue, Ottawa, Ontario ("Laurier Property") for a sale price of $17,500 with closing expected to be on or about June 15, 2023.
- Contractually leased and renewed approximately 124,100 square feet with a weighted average lease term of 3.84 years and a 2.4% increase over expiring base rents.
- Portfolio occupancy of 93% with an average remaining lease term of 4.5 years (91% and 4.3 years including investment properties held for sale).
- Revenue and net operating income ("NOI") decreased 7% and 16%, respectively, compared to Q1-2022 driven by a decrease in Same property NOI ("Same Property NOI").
- During 2022, the REIT received termination income from one tenant at 6925 Century Avenue who downsized a portion of their space effective Q4-2022. Excluding this termination income and the lost revenue associated with the vacant space, Q4-2022 AFFO basic and diluted per Unit would have been $0.11 which is consistent with Q1-2023 results. To date, 60% of this vacancy has been contractually re-leased with rents commencing in the latter half of 2023.
- Same property NOI decreased by 16.6% and 15.4% excluding investment properties held for sale due to termination fees received in Q1-2022 along with tenants downsizing on renewal. The decrease in NOI generated from investment properties held for sale was due to the lead tenant vacating the Laurier Property effective February 2023. Same Property NOI excluding investment properties held for sale and termination fees decreased 6.6% in Q1-2023.
- Funds from operations ("FFO") and adjusted funds from operations ("AFFO") basic and diluted per Unit decreased by $0.05 to $0.11 as compared to Q1-2022.
- Announced a 50% reduction to the monthly cash dividend from $0.0495 per Unit to $0.02475 per Unit or $0.297 per Unit on an annualized basis ("Distribution Reduction"). The new declared distribution was paid on April 17, 2023 to Unitholders of record on March 31, 2023. The Distribution Reduction is expected to provide an additional $25 million in cash annually that will be used to improve our capital profile.
- $58.4 million of Available Funds at the end of Q1-2023.

Subsequent Events

- On April 12, 2023, the REIT announced the intention to commence a normal course issuer bid (the "NCIB") subject to the approval of the TSX. The REIT will have the ability to purchase for cancellation up to a maximum of 8,239,557 of its Units representing 10% of the REIT's public float of 82,395,573 Units at a price per Unit equal to the market price at the time of acquisition. The NCIB became effective from April 18, 2023 and will remain in place until the earlier of April 17, 2024 or the date on which the REIT has purchased the maximum number of Units permitted.
- Also on April 12, 2023, the REIT announced the suspension of the dividend reinvestment plan ("DRIP") until further notice. As a result Unitholders received distributions in cash effective with the distribution paid on April 17, 2023 to Unitholders of record on March 31, 2023.
- On April 26, 2023, the REIT announced that effective June 30, 2023, Tracy Sherren, the REIT's President and Chief Financial Officer and President, Canadian Commercial, Starlight Investments, will be retiring from her executive positions at the REIT and Starlight Investments. Ms. Sherren will remain as a trustee of the REIT. Martin Liddell, the current Chief Financial Officer at Starlight Investments, will be appointed as a Chief Financial Officer of the REIT in addition to his positions at Starlight Investments. Chris Bell will continue to act as the President and Chief Investment Officer at Starlight Investments as well as serving as the interim President of the Canadian Commercial division at Starlight Investments.

The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this press release are in thousands of dollars.

Key Performance Indicators

	Three months ended March 31	
	2023	**2022**
Number of properties	46	46
Portfolio GLA	4,950,300 sf	4,799,700 sf
Occupancy	91 %	96 %
Remaining weighted average lease term	4.3 years	4.3 years
Revenue from government and credit rated tenants	80 %	76 %
Revenue	$ 33,858	$ 36,327
NOI [(1)]	18,638	22,194
Net income and comprehensive income	6,995	14,909
Same Property NOI [(1)]	20,037	24,034
FFO [(1)]	$ 10,743	$ 14,776
FFO per Unit - basic [(1)]	0.11	0.16
FFO per Unit - diluted [(1)]	0.11	0.16
AFFO [(1)]	$ 10,581	$ 14,617
AFFO per Unit - basic [(1)]	0.11	0.16
AFFO per Unit - diluted [(1)]	0.11	0.16
AFFO payout ratio - diluted [(1)]	111 %	94 %
Distributions declared	$ 11,695	$ 13,680

Operating Results

Q1-2023 revenue and NOI decreased 7% and 16%, respectively when compared to the same period in 2022. The main contributor was the decrease in termination income and lower revenue from a tenant in the REIT's GTA portfolio that downsized a portion of their space effective Q4-2022 combined with a 101,200 square feet lease expiry in Q1-2023 at the Laurier Property. The decrease was partially offset by termination income received from the tenant at the property disposed of in Q1-2023 and NOI from an acquisition completed in Q3-2022.

The REIT's FFO and AFFO decreased $4,033 and $4,036, respectively in Q1-2023 over the comparable period. FFO and AFFO were negatively impacted by a reduction in Same Property NOI due to a reduction in revenue, combined with higher financing costs as a result of higher interest rates on mortgage refinancings

[(1)] This is a non-IFRS financial measure. Refer to the Non-IFRS financial measures section below.

and the REIT's Credit Facility. FFO and AFFO benefited from NOI on the acquisition completed in Q3-2022 and termination income.

Q1-2023 FFO and AFFO basic and diluted per Unit were lower by $0.05 compared to Q1-2022. Excluding termination fees earned in 2022, Q1-2023 FFO basic and diluted per Unit were lower by $0.03 and AFFO basic and diluted per Unit were lower by $0.03 and $0.02, respectively compared to Q1-2022.

Same Property NOI[(1)]

	As at March 31	
Occupancy[(2)]	2023	2022
Alberta	94.4 %	96.9 %
British Columbia	98.7 %	100.0 %
New Brunswick	85.5 %	82.4 %
Nova Scotia	96.2 %	98.1 %
Ontario	93.2 %	96.4 %
Total	93.1 %	95.3 %

NOI[(2)]	Q1 2023	Q1 2022	Variance	Variance %
Alberta	$ 3,518	$ 3,486	$ 32	0.9 %
British Columbia	1,273	1,259	14	1.1 %
New Brunswick	791	1,075	(284)	(26.4)%
Nova Scotia	1,680	1,759	(79)	(4.5)%
Ontario	11,835	15,006	(3,171)	(21.1)%
	$ 19,097	$ 22,585	$ (3,488)	(15.4)%

Q1-2023 Same Property NOI decreased 16.6% and 15.4% excluding investment properties held for sale when compared to Q1-2022.

Property occupancy in Alberta and British Columbia decreased due to lease expiries in the second half of 2022, however NOI was positively impacted by contractual rent increases. New Brunswick and Nova Scotia Same Property NOI experienced a decline due to certain tenants that downsized on renewal, however Same property occupancy in New Brunswick was positively impacted by new lease deals and tenant expansions completed in 2022 with rents commencing in the first half of 2023.

Ontario Same Property NOI decreased mainly due to termination fees received in Q1-2022 relating to a tenant in the REIT’s GTA portfolio that downsized a portion of their space effective December 2022, 60% has been contractually re-leased with rents commencing in the latter half of 2023. The decrease in NOI generated from investment properties held for sale was due to the lead tenant vacating the Laurier Property on expiry effective February 2023.

Same Property NOI excluding investment properties held for sale and termination fees decreased 6.6% in Q1-2023.

Debt and Liquidity

	March 31, 2023	December 31, 2022
Indebtedness to GBV ratio [(1)]	59.8 %	59.3 %
Interest coverage ratio [(1)]	2.80 x	3.00 x
Indebtedness - weighted average fixed interest rate [(1)]	3.63 %	3.54 %
Indebtedness - weighted average term to maturity [(1)]	3.14 years	3.27 years

At the end of Q1-2023, the REIT had access to Available Funds[(1)] of $58,393.

As at March 31, 2023, the REIT's mortgage portfolio carried a weighted average term to maturity of 3.14 years and a weighted average fixed interest rate of 3.63%. During the quarter, the REIT refinanced a total of $31,121 of mortgages, one with a fixed interest rate of 4.83% (five year term) and one with a variable interest rate at prime plus 1.5% (one year term), providing the REIT with additional liquidity of approximately $5,700.

About the REIT

The REIT is an unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario. The REIT currently owns and operates a portfolio of 46 commercial properties consisting of approximately 5.0 million square feet in urban and select strategic secondary markets across Canada focusing on long term leases with government and credit rated tenants.
The REIT is focused on growing its portfolio principally through acquisitions across Canada and such other jurisdictions where opportunities exist. Additional information concerning the REIT is available at www.sedar.com or the REIT’s website at www.truenorthreit.com.

[(1)] This is a non-IFRS financial measure. Refer to the Non-IFRS financial measures section below.
[(2)] Excludes investment properties held for sale.

Non-IFRS measures

Certain terms used in this press release such as FFO, AFFO, FFO and AFFO payout ratios, NOI, Same Property NOI, indebtedness (“Indebtedness”), gross book value (“GBV”), Indebtedness to GBV ratio, net earnings before interest, tax, depreciation and amortization and fair value gain (loss) on financial instruments and investment properties (“Adjusted EBITDA”), interest coverage ratio and Available Funds are not measures defined by International Financial Reporting Standards (“IFRS”) as prescribed by the International Accounting Standards Board, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. FFO, AFFO, FFO and AFFO payout ratios, NOI, Same Property NOI, Indebtedness, GBV, Indebtedness to GBV ratio, Adjusted EBITDA, interest coverage ratio, adjusted cash provided by operating activities and Available Funds as computed by the REIT may not be comparable to similar measures presented by other issuers. The REIT uses these measures to better assess the REIT's underlying performance and provides these additional measures so that investors may do the same. Details on non-IFRS measures are set out in the REIT's Management's Discussion and Analysis for the three months ended March 31, 2023 (“MD&A”) and the Annual Information Form (“AIF”) are available on the REIT's profile at www.sedar.com.

Reconciliation of Non-IFRS financial measures

The following tables reconcile the non-IFRS financial measures to the comparable IFRS measures for the three months ended March 31, 2023 and 2022. These non-IFRS financial measures do not have any standardized meanings prescribed by IFRS and may not be comparable to similar measures presented by other issuers.

NOI

The following table calculates the REIT's net operating income, a non-IFRS financial measure:

	Three months ended March 31	
	2023	**2022**
Revenue	$ 33,858	$ 36,327
Expenses:		
Property operating costs	(9,907)	(9,071)
Realty taxes	(5,313)	(5,062)
NOI	$ 18,638	$ 22,194

Same Property NOI

Same Property NOI is measured as the net operating income for the properties owned and operated by the REIT for the current and comparative period. The following table reconciles the REIT's Same Property NOI to NOI:

	Three months ended March 31	
	2023	**2022**
Number of properties	45	45
Revenue	$ 32,289	$ 36,152
Expenses:		
Property operating	(9,547)	(9,023)
Realty taxes	(5,120)	(5,040)
	$ 17,622	$ 22,089
Add:		
Amortization of leasing costs and tenant inducements	2,028	1,565
Straight-line rent	387	380
Same Property NOI	$ 20,037	$ 24,034
Less:		
Investment properties held for sale	(940)	(1,449)
Same Property NOI excluding investment properties held for sale	$ 19,097	$ 22,585
Reconciliation to condensed consolidated interim financial statements:		
Acquisitions, dispositions and investment properties held for sale	1,345	1,566
Amortization of leasing costs and tenant inducements	(2,037)	(1,578)
Straight-line rent	233	(379)
NOI	$ 18,638	$ 22,194

FFO and AFFO

The following table reconciles the REIT's FFO and AFFO to net income and comprehensive income, for the three months ended March 31, 2023 and 2022:

	Three months ended March 31	
	2023	**2022**
Net income and comprehensive income	$ 6,995	$ 14,909
Add (deduct):		
Fair value adjustment of Unit-based compensation	(299)	(124)
Fair value adjustment of investment properties	6,472	1,670
Fair value adjustment of Class B LP Units	(5,861)	(755)
Transaction costs on sale of investment property	244	—
Distributions on Class B LP Units	313	449
Unrealized loss (gain) on change in fair value of derivative instruments	842	(2,951)
Amortization of leasing costs and tenant inducements	2,037	1,578
FFO	$ 10,743	$ 14,776
Add (deduct):		
Unit-based compensation expense	168	265
Amortization of financing costs	380	376
Rent supplement	743	—
Amortization of mortgage discounts	(9)	(13)
Instalment note receipts	14	17
Straight-line rent	(233)	379
Capital reserve	(1,225)	(1,183)
AFFO	$ 10,581	$ 14,617
FFO per Unit:		
Basic	$ 0.11	$ 0.16
Diluted	$ 0.11	$ 0.16
AFFO per Unit:		
Basic	$ 0.11	$ 0.16
Diluted	$ 0.11	$ 0.16
AFFO payout ratio:		
Basic	110 %	94 %
Diluted	111 %	94 %
Distributions declared	$ 11,695	$ 13,680
Weighted average Units outstanding (000s):		
Basic	94,474	92,052
Add:		
Unit options and Incentive Units	23	548
Diluted	94,497	92,600

Indebtedness to GBV Ratio

The table below calculates the REIT's Indebtedness to GBV ratio as at March 31, 2023 and December 31, 2022. The Indebtedness to GBV ratio is calculated by dividing the indebtedness by GBV:

	March 31, 2023	**December 31, 2022**
Total assets	$ 1,437,297	$ 1,450,315
Deferred financing costs	6,805	7,070
GBV	$ 1,444,102	$ 1,457,385
Mortgages payable	843,136	846,689
Credit Facility	17,400	14,400
Unamortized financing costs and mark to market mortgage adjustments	3,524	3,745
Indebtedness	$ 864,060	$ 864,834
Indebtedness to GBV	59.8 %	59.3 %

Adjusted EBITDA

The table below reconciles the REIT's adjusted EBITDA to net income and comprehensive income for the twelve month period ended March 31, 2023 and 2022:

	Twelve months ended March 31	
	2023	**2022**
Net income and comprehensive income	$ 8,618	$ 56,193
Add (deduct):		
Interest expense	29,800	27,360
Fair value adjustment of Unit-based compensation	(755)	392
Transaction costs on sale of investment property	244	623
Fair value adjustment of investment properties	46,727	(6,897)
Fair value adjustment of Class B LP Units	(9,696)	951
Distributions on Class B LP Units	1,537	1,829
Unrealized loss on change in fair value of derivative instruments	(1,651)	(4,333)
Amortization of leasing costs, tenant inducements, mortgage premium and financing costs	8,730	7,685
Adjusted EBITDA	$ 83,554	$ 83,803

Interest Coverage Ratio

The table below calculates the REIT's interest coverage ratio for the 12 month period ended March 31, 2023 and 2022. The interest coverage ratio is calculated by dividing Adjusted EBITDA by interest expense.

	Twelve months ended March 31	
	2022	**2022**
Adjusted EBITDA	$ 83,554	$ 83,803
Interest expense	29,800	27,360
Interest coverage ratio	2.80 x	3.06 x

Available Funds

The table below calculates the REIT's Available Funds as at March 31, 2023 and December 31, 2022:

	March 31, 2023	**December 31, 2022**
Cash	$ 7,793	$ 9,501
Undrawn Credit Facility	50,600	53,600
Available Funds	$ 58,393	$ 63,101

Forward-looking Statements

Certain statements contained in this press release constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions suggesting future outcomes or events.

Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: risks and uncertainties related to the trust units of the REIT ("Units"); risks related to the REIT and its business; fluctuating interest rates and general economic conditions, including increased levels of inflation; credit, market, operational and liquidity risks generally; occupancy levels and defaults, including the failure to fulfill contractual obligations by tenants; lease renewals and rental increases; the ability to re-lease and find new tenants for vacant space; the timing and ability of the REIT to acquire or sell certain properties; the ongoing effects of COVID-19 and work-from-home flexibility initiatives on the business, operations and financial condition of the REIT and its tenants, as well as on consumer behavior and the economy in general, including the ability to enforce leases, perform capital expenditure work, increase rents, raise capital through the issuance of Units or other securities of the REIT and obtain mortgage financing on the REIT's properties (the "properties"). The foregoing is not an exhaustive list of factors that may affect the REIT's forward-looking statements. Other risks and uncertainties not presently known to the REIT could also cause actual results or events to differ materially from those expressed in its forward-looking statements. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances. There can be no assurance regarding: (a) the ongoing effects of COVID-19 and work-from-home initiatives on the REIT's business, operations and performance, including the performance of its Units; (b) the REIT's ability to mitigate any impacts related to fluctuating interest rates, inflation and the after effects of COVID-19 including the shift to hybrid working; (c) the factors, risks and uncertainties expressed above in regards to the post COVID-19 environment on the commercial real estate industry and property occupancy levels; (d) credit, market, operational, and liquidity risks generally; (e) the availability of investment opportunities for growth in Canada and the timing and ability of the REIT to acquire or sell certain properties; (f) Starlight Group Property Holdings Inc., or any of its affiliates ("Starlight"), continuing as asset manager of the REIT in accordance with its current asset management agreement; and (g) other risks inherent to the REIT's business and/or factors beyond its control which could have a material adverse effect on the REIT.

The forward-looking statements made relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

For further information:

Daniel Drimmer
Chief Executive Officer
(416) 234-8444

or

Tracy Sherren
President and Chief Financial Officer
(416) 234-8444