True North Commercial REIT Reports Q2 2023 Results

Positive leasing momentum continued with 15.9% average rent increase on renewals during Q2

301,800 sq ft leased/renewed with a weighted average lease term of 4.7 years including 84% government and credit rated tenants

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This news release constitutes a "designated news release" for the purposes of the REIT's prospectus supplement dated April 21, 2022 to its short form base shelf prospectus dated February 17, 2022.

TORONTO, ON – August 3, 2023 – True North Commercial Real Estate Investment Trust (TSX: TNT.UN) (the "REIT") today announced its financial results for the three and six months ended June 30, 2023.

"Positive leasing momentum continued during the quarter which highlighted our commitment to maintaining strong relationships with our tenants while continuing to focus on our strategic initiative of strengthening the REIT's financial and liquidity position with the sale of 360 Laurier Avenue West in Ottawa, Ontario in July," stated Daniel Drimmer, the REIT's Chief Executive Officer.

Second Quarter 2023 Highlights

- Contractually leased and renewed approximately 301,800 square feet with a weighted average lease term of 4.7 years and a 15.9% increase over expiring base rents.
- Portfolio occupancy of 93% with an average remaining lease term of 4.5 years (89% and 4.4 years including investment properties held for sale).
- Revenue and net operating income ("NOI") decreased 7% and 15%, respectively, compared to Q2-2022 driven by lower same property NOI ("Same Property NOI"). Excluding termination income and investment properties held for sale, revenue and NOI decreased 2% and 6%, respectively, compared to Q2-2022.
- During 2022, the REIT received termination income from one tenant at 6925 Century Avenue, Mississauga, Ontario that downsized a portion of their space effective Q4-2022. To date, 60% of this vacancy has been contractually re-leased with rents commencing in the latter half of 2023. Q2-2023 FFO and AFFO basic and diluted per Unit decreased $0.05 to $0.11 which is consistent and in line with Q1-2023. Excluding termination fees, Q2-2023 FFO and AFFO basic and diluted per Unit ("Unit") were lower by $0.02 compared to Q2-2022.
- Same Property NOI decreased 2.6% excluding investment properties held for sale and termination fees. Excluding investment properties held for sale only, Q2-2023 Same Property NOI decreased 11.2% as a result of the significant termination fee income recorded in the prior year period.
- $51.9 million of Available Funds at the end of Q2-2023.
- Commenced a normal course issuer bid (the "NCIB") that 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. During the six months ended June 30, 2023, the REIT repurchased 124,900 Units for $0.3 million under the NCIB.
- Suspension of the dividend reinvestment plan, as a result all Unitholders received distributions in cash effective with the distribution paid on April 17, 2023 to Unitholders of record on March 31, 2023.

YTD Highlights

- Completed the sale of 400 Carlingview Drive, Toronto, Ontario (the "Carlingview Property") on March 10, 2023 for a sale price of $7.25 million.
- Contractually leased and renewed approximately 425,900 square feet with a weighted average lease term of 4.5 years and a 12.2% increase over expiring base rents.
- 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 the REIT's capital profile.
- Effective June 30, 2023, Tracy Sherren, the REIT's President and Chief Financial Officer and President, Canadian Commercial, Starlight Investments, retired 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, was appointed as Chief Financial Officer of the REIT in addition to his positions at Starlight.

Subsequent Events

- On July 10, 2023, the REIT completed the sale of 360 Laurier Avenue West, Ottawa, Ontario ("the Laurier Property") totaling 107,100 square feet, for a sale price of $17.5 million.
- On July 31, 2023, the REIT disposed of 32071 South Fraser Way, Abbotsford, BC (the "Abbotsford Property") totaling 52,300 square feet, for a sale price of $24.0 million.
- On July 31, 2023, the Credit Facility was amended to remove the temporary increase of $8 million due to the completion of the sale of the Abbotsford Property. The two tranches of the Credit Facility were also amended to increase the secured portion from $30 million to $35 million and decrease the unsecured portion from $30 million to $25 million.
- The REIT refinanced $36.5 million of mortgages with a weighted average fixed interest rate of 6.05% for five and seven-year terms.

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 June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Number of properties			46	46
Portfolio GLA			4,951,400 sf	4,801,100 sf
Occupancy [(1)]			93 %	96 %
Remaining weighted average lease term [(1)]			4.5 years	4.3 years
Revenue from government and credit rated tenants			79 %	76 %
Revenue	$ 32,690	$ 35,120	$ 66,548	$ 71,447
NOI [(2)]	18,482	21,685	37,120	43,879
Net income and comprehensive income	793	15,482	7,788	16,241
Same Property NOI [(2)]	20,532	23,750	40,569	47,784
FFO [(2)]	$ 10,676	$ 14,423	$ 21,419	$ 29,199
FFO per Unit - basic [(2)]	0.11	0.16	0.23	0.32
FFO per Unit - diluted [(2)]	0.11	0.16	0.23	0.32
AFFO [(2)]	$ 10,466	$ 14,341	$ 21,047	$ 28,958
AFFO per Unit - basic [(2)]	0.11	0.16	0.22	0.31
AFFO per Unit - diluted [(2)]	0.11	0.16	0.22	0.31
AFFO payout ratio - diluted [(2)]	67 %	96 %	89 %	95 %
Distributions declared	$ 7,024	$ 13,720	$ 18,719	$ 27,400

(1) Excludes investment properties held for sale.
(2) This is a non-IFRS financial measure, refer to "Non-IFRS Financial Measures".

Operating Results

Revenue and NOI decreased 7% and 15%, respectively, in Q2-2023 and YTD-2023 when compared to the same periods in 2022. The decrease in revenue and NOI was largely a result of the decrease in termination income and lower revenue from a tenant in the REIT's greater Toronto area portfolio that downsized a portion of their space effective Q4-2022, combined with a 101,200 square foot lease expiry in Q1-2023 at the Laurier Property and 115,000 square foot lease expiry in Q2-2023 at 3650 Victoria Park Avenue, Toronto, Ontario (the "Victoria Park Property"), together with the disposition in Q1-2023 (the "Primary Variance Drivers"). This decrease was partially offset by termination income received from the tenant at the Carlingview Property and NOI from an acquisition completed in Q3-2022.

Excluding termination income and investment properties held for sale, revenue and NOI decreased 2% and 6%, respectively, in Q2-2023 and 3% and 8%, respectively, in YTD-2023.

Q2 2023 FFO and AFFO decreased $3,747 (YTD 2023 - $7,780), and $3,875 (YTD 2023 - $7,911), respectively compared to the same period in 2022. FFO and AFFO were negatively impacted by the Primary Variance Drivers, combined with higher financing costs as a result of higher interest rates on mortgage refinancings and higher interest expense on the Credit Facility. FFO and AFFO benefited from NOI on the acquisition completed in Q3-2022 and termination income.

Q2-2023 FFO and AFFO basic and diluted per Unit decreased $0.05 to $0.11. YTD-2023 FFO basic and diluted per Unit decreased $0.09 to $0.23 and AFFO basic and diluted per Unit decreased $0.09 to $0.22 compared to YTD-2022. Excluding termination fees, Q2-2023 FFO and AFFO basic and diluted per Unit were lower by $0.02 and YTD-2023 FFO and AFFO basic and diluted per unit were lower by $0.05 compared to the same period in 2022.

Same Property NOI[1]

	As at June 30	
Occupancy [2]	**2023**	**2022**
Alberta	94.4 %	95.7 %
British Columbia	100.0 %	98.7 %
New Brunswick	85.0 %	83.8 %
Nova Scotia	96.2 %	96.9 %
Ontario	93.3 %	96.5 %
Total	93.2 %	95.2 %

NOI	**Q2 2023**	**Q2 2022**	**Variance**	**Variance %**
Alberta	$ 3,537	$ 3,475	$ 62	1.8 %
British Columbia	1,270	1,274	(4)	(0.3)%
New Brunswick	1,359	1,000	359	35.9 %
Nova Scotia	1,811	1,719	92	5.4 %
Ontario	11,884	14,907	(3,023)	(20.3)%
	$ 19,861	$ 22,375	$ (2,514)	(11.2)%

Q2-2023 Same Property NOI decreased 2.6% (YTD-2023 - 4.6%) excluding termination fees and investment properties held for sale. Excluding investment properties held for sale only, Q2-2023 Same Property NOI decreased 11.2% (YTD-2023 - 13.3%) as a result of the significant termination fee income recorded in the prior year periods.

Despite a decrease in occupancy, Alberta Same Property NOI was positively impacted by contractual rent increases and a new lease that commenced in Q1-2023. New Brunswick Same Property NOI increased as a result of a new lease that commenced in June 2023 coupled with 141,000 square feet of government renewals across three properties at higher rental rates which were retroactive to Q4-2022. Same Property NOI in Nova Scotia increased due to new leases that commenced in the second half of 2022 offset by certain tenants that downsized on renewal.

Ontario Same Property NOI decreased mainly due to termination fees received in Q2-2022 relating to a tenant in the REIT's GTA portfolio that downsized a portion of their space effective December 2022, of which 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 and Victoria Park Property on expiry.

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

Debt and Liquidity

	June 30, 2023	December 31, 2022
Indebtedness to GBV ratio [(1)]	60.2 %	59.3 %
Interest coverage ratio [(1)]	2.62 x	3.00 x
Indebtedness [(1)] - weighted average fixed interest rate	3.64 %	3.54 %
Indebtedness [(1)] - weighted average term to maturity	2.89 years	3.27 years

At the end of Q2-2023, the REIT had access to Available Funds of approximately $51,927, and a weighted average term to maturity of 2.89 years in its mortgage portfolio with a weighted average fixed interest rate of 3.64%. During the first 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.

Subsequent to quarter end, the REIT refinanced $36,452 of mortgages with a weighted average fixed interest rate of 6.05% for five and seven-year terms.

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 44 commercial properties consisting of approximately 4.8 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.sedarplus.ca or the REIT’s website at www.truenorthreit.com.

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 and six months ended June 30, 2023 (“MD&A”) and the Annual Information Form (“AIF”) are available on the REIT's profile at www.sedarplus.ca.

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

Reconciliation of Non-IFRS financial measures

The following tables reconcile the non-IFRS financial measures to the comparable IFRS measures for the three and six months ended June 30, 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 June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Revenue	$ 32,690	$ 35,120	$ 66,548	$ 71,447
Expenses:				
Property operating costs	(9,194)	(8,451)	(19,101)	(17,522)
Realty taxes	(5,014)	(4,984)	(10,327)	(10,046)
NOI	$ 18,482	$ 21,685	$ 37,120	$ 43,879

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 June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Number of properties	45	45	45	45
Revenue	$ 31,627	$ 34,954	63,916	$ 71,106
Expenses:				
Property operating	(8,897)	(8,415)	(18,444)	(17,438)
Realty taxes	(4,835)	(4,961)	(9,955)	(10,001)
	$ 17,895	$ 21,578	35,517	$ 43,667
Add:				
Amortization of leasing costs and tenant inducements	2,269	1,594	4,297	3,159
Straight-line rent	368	578	755	958
Same Property NOI	$ 20,532	$ 23,750	40,569	$ 47,784
Less: Investment properties held for sale	671	1,375	1,611	2,824
Same Property NOI excluding investment properties held for sale	19,861	22,375	38,958	44,960
Reconciliation to condensed consolidated interim financial statements:				
Acquisitions and dispositions	640	1,497	1,985	3,063
Amortization of leasing costs and tenant inducements	(2,270)	(1,610)	(4,307)	(3,188)
Straight-line rent	251	(577)	484	(956)
NOI	$ 18,482	$ 21,685	37,120	$ 43,879

FFO and AFFO

The following table reconciles the REIT's FFO and AFFO to net income and comprehensive income, for the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Net income and comprehensive income	$ 793	$ 15,482	$ 7,788	$ 30,391
Add (deduct):				
Fair value adjustment of Unit-based compensation	(133)	(358)	(432)	(482)
Fair value adjustment of investment properties	11,832	1,610	18,304	3,280
Fair value adjustment of Class B LP Units	(2,734)	(2,661)	(8,595)	(3,416)
Transaction costs on sale of investment property	—	—	244	—
Distributions on Class B LP Units	185	449	498	898
Unrealized gain on change in fair value of derivative instruments	(1,537)	(1,709)	(695)	(4,660)
Amortization of leasing costs and tenant inducements	2,270	1,610	4,307	3,188
FFO	$ 10,676	$ 14,423	$ 21,419	$ 29,199
Add (deduct):				
Unit-based compensation expense	164	183	332	448
Amortization of financing costs	362	352	742	728
Rent Supplement	742	—	1,485	—
Amortization of mortgage discounts	(8)	(12)	(17)	(25)
Instalment note receipts	14	15	28	32
Straight-line rent	(251)	577	(484)	956
Capital reserve	(1,233)	(1,197)	(2,458)	(2,380)
AFFO	$ 10,466	$ 14,341	$ 21,047	$ 28,958
FFO per Unit:				
Basic	$ 0.11	$ 0.16	$ 0.23	$ 0.32
Diluted	$ 0.11	$ 0.16	$ 0.23	$ 0.32
AFFO per Unit:				
Basic	$ 0.11	$ 0.16	$ 0.22	$ 0.31
Diluted	$ 0.11	$ 0.16	$ 0.22	$ 0.31
AFFO payout ratio:				
Basic	67 %	96 %	89 %	95 %
Diluted	67 %	96 %	89 %	95 %
Distributions declared	$ 7,024	$ 13,720	$ 18,719	$ 27,400
Weighted average Units outstanding (000s):				
Basic	94,632	92,338	94,553	92,196
Add:				
Unit options and Incentive Units	27	126	25	130
Diluted	94,659	92,464	94,578	92,326

Indebtedness to GBV Ratio

The table below calculates the REIT's Indebtedness to GBV ratio as at June 30, 2023 and December 31, 2022. The Indebtedness to GBV ratio is calculated by dividing the indebtedness by GBV:

	June 30, 2023	**December 31, 2022**
Total assets	$ 1,426,916	$ 1,450,315
Deferred financing costs	6,846	7,070
GBV	$ 1,433,762	$ 1,457,385
Mortgages payable	837,319	846,689
Credit Facility	22,500	14,400
Unamortized financing costs and mark to market mortgage adjustments	3,218	3,745
Indebtedness	$ 863,037	$ 864,834
Indebtedness to GBV	60.2 %	59.3 %

Adjusted EBITDA

The table below reconciles the REIT's adjusted EBITDA to net income and comprehensive income for twelve month period ended June 30, 2023 and 2022:

	Twelve months ended June 30	
	2023	**2022**
Net income and comprehensive income	$ (6,071)	$ 65,154
Add (deduct):		
Interest expense	30,951	27,444
Fair value adjustment of Unit-based compensation	(530)	(414)
Transaction costs on sale of investment property	244	—
Fair value adjustment of investment properties	56,949	(7,453)
Fair value adjustment of Class B LP Units	(9,769)	(3,416)
Distributions on Class B LP Units	1,273	1,809
Unrealized loss on change in fair value of derivative instruments	(1,479)	(6,027)
Amortization of leasing costs, tenant inducements, mortgage premium and financing costs	9,404	7,815
Adjusted EBITDA	$ 80,972	$ 84,912

Interest Coverage Ratio

The table below calculates the REIT's interest coverage ratio for the twelve month period ended June 30, 2023 and 2022. The interest coverage ratio is calculated by dividing Adjusted EBITDA by interest expense.

	Twelve months ended June 30	
	2023	**2022**
Adjusted EBITDA	$ 80,972	$ 84,912
Interest expense	30,951	27,444
Interest coverage ratio	2.62 x	3.09 x

Available Funds

The table below calculates the REIT's Available Funds as at June 30, 2023 and December 31, 2022:

	June 30, 2023	**December 31, 2022**
Cash	$ 6,427	$ 9,501
Undrawn Credit Facility	45,500	53,600
Available Funds	$ 51,927	$ 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; repurchasing Units under the NCIB; 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) repurchasing units under the NCIB; (g) 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 (h) 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.

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