dream alternatives DRA.UN-TSX

DREAM ALTERNATIVES REPORTS SECOND QUARTER RESULTS

This press release contains forward-looking information that is based upon assumptions and is subject to risks and uncertainties as indicated in the cautionary note contained within this press release.

TORONTO, August 7, 2019, DREAM HARD ASSET ALTERNATIVES TRUST (TSX: DRA.UN) ("Dream Alternatives", "we" or the "Trust") today reported its financial results for the three and six months ended June 30, 2019.

"We are pleased with our accomplishments to date, having recently launched our first substantial issuer bid in accordance with the strategic plan announced earlier this year" said Michael Cooper, Portfolio Manager. "Within the business, we announced several critical milestones within our West Don Lands and Zibi developments this quarter which included: significant financing; leasing activity; and new collaborative partnerships. Additionally, we have continued to advance our non-core asset disposition program to support our strategic plan. We generated solid income results this quarter as we continue to improve the value of our development assets."

For the three months ended June 30, 2019, the Trust reported net income of $8.8 million compared with $0.1 million in the same period in the prior year. The increase was primarily driven by income contributions from its equity investment in Axis Condominiums, which commenced occupancy in the second quarter of 2019. In the six months ended June 30, 2019, the Trust generated net income of $9.6 million, an increase of $3.7 million from the prior period due to earnings from the above noted investment, partially offset by fair value gains on marketable securities which were earned in the comparative period.

Key Achievements

During the three and six months ended June 30, 2019, the Trust invested $8.8 million and $17.3 million including transaction costs, respectively, into various development projects. Notable highlights for the Trust's development investments are detailed below.

In the three months ended June 30, 2019, Zibi, a 34-acre waterfront development along the Ottawa River in Gatineau, Quebec and Ottawa, Ontario, announced the project's first commercial lease with the Federal Government of Canada. The 15-year lease is for approximately 155,000 square feet (''sf'') of office space located in the heart of the site, with unparalleled views to Parliament Hill. In addition to this building, there is over 450,000 sf of retail and commercial space in various planning/development stages. From a residential perspective, Zibi's second condominium building is nearing completion with expected occupancies in early 2020. Zibi also recently announced an innovative partnership with Common, a co-living residential company, to manage one of the project's first rental buildings on the site. Along with the first phase of servicing for both the Ontario and Quebec lands, which is progressing steadily, the site is transforming into an exceptional community in the heart of the National Capital Region. The Trust has invested $43.2 million in Zibi to date, for an equity ownership of 40%.

During the three months ended June 30, 2019, the Trust reached an important financing milestone on the first block of its purpose-built rental community in Toronto's West Don Lands neighbourhood (''West Don Lands''). Through CMHC's Rental Construction Financing initiative, the Federal Government announced the funding of $357 million (at 100%) for the first block slated for development ("Block 8"), which will comprise over 750 rental units including 30% affordable units. Construction is expected to commence on Block 8 in the fall of 2019. The Trust has a 25% interest in the West Don Lands development, alongside Dream, Kilmer Van Nostrand Co. Limited and Tricon Capital Group as the residual partners.

During and subsequent to the second quarter of 2019, the Hard Rock/Virgin Hotels Las Vegas ("Hard Rock") investment entered into various partnerships with best-in-class operators. The Hard Rock signed an agreement with AEG Presents (''AEG''), an American worldwide sporting and music presenter, to manage The Joint, its 4,000-seat showroom that can host classic and modern rock bands as well as other types of events. AEG will manage, operate and book the venue beginning in the fall of 2020 at which time the property will open as the re-conceptualized and revitalized Virgin Hotels Las Vegas. Additionally, during the second quarter of 2019, the Hard Rock entered into a lease agreement with a leading operator to manage its casino operations. This agreement is considered to be a significant milestone as it eliminates exposure to the underlying gaming operations providing the hotel with a contractual triple net rental cash flow stream and allowing for a greater focus on driving value creation through the hospitality and Food & Beverage segments at the property. The Hard Rock continues to operate as an income producing property with the commencement of its revitalization slated for February 2020. As at June 30, 2019, the Trust's investment at the Hard Rock had a fair value of $38.4 million for its 10% ownership interest which included an unrealized foreign currency loss of $0.8 million, for the three months ended June 30, 2019, and a cumulative unrealized foreign currency gain of $0.4 million since inception of the investment.

Subsequent to June 30, 2019, an agreement was reached with the City of Mississauga to facilitate the advancement of municipal approvals for our newly named Brightwater development (formerly referred to as ''Port Credit"), a significant milestone for the project. The partnership has collaborated extensively with the City of Mississauga, residents and community to reach this important approval stage. Brightwater is a 72-acre waterfront development which will encompass nearly 3,000 residential units and 400,000 sf of commercial space upon completion. To date, remediation on the site has commenced and pending final approvals in September, we anticipate construction to commence in 2020. The Trust, together with Dream, has a 31% investment in the development, with the remainder owned by Kilmer Van Nostrand Co. Limited, DiamondCorp, and FRAM + Slokker.

The Trust’s equity investment in Axis Condominiums generated net income of $10.3 million during the three months ended June 30, 2019. This equity investment is a 572-unit project located at Church and Carlton Street in downtown Toronto.

Updates of Strategic Plan to Enhance Unitholder Value

The Trust’s strategic plan, which was announced in early 2019, included the continued recycling of capital from the disposition of select non-core assets into the Trust’s real estate developments, as well as a commitment to repurchase up to $100 million of units in three separate tranches in 2019 and 2020. For details please see link to press release issued on April 23, 2019. Subsequent to the quarter ended June 30, 2019, the Trust announced its intention to commence a substantial issuer bid ("SIB") pursuant to which the Trust will offer to purchase up to 4 million of its outstanding units at a purchase price of $8.00 per unit. The offer will expire on August 29, 2019 unless terminated or extended by the Trust. The Trust intends to fund this first offer with a combination of cash on hand and its existing credit facility. As at June 30, 2019, the Trust had a cash balance of $32.3 million and funds available under its revolving credit facility of $35.3 million. Subsequent to June 30, 2019, the revolving credit facility was renewed, and the maturity date was extended to July 31, 2021.

During the three months ended June 30, 2019, the Trust continued its efforts towards the recycling of capital, disposing of components of Bayfield LP, a non-core legacy investment, for total cash proceeds of $10.3 million, which resulted in a loss of $3.3 million upon disposition.

Unitholders' Equity

As at June 30, 2019, total unitholders' equity of $8.05 per unit increased slightly compared to $8.04 per unit as at March 31, 2019. The increase in total unitholders' equity was primarily due to net income generated of $8.8 million during the three months ended June 30,2019, partially offset by unrealized foreign currency loss of $0.8 million and distributions paid and payable of $7.2 million to unitholders.

Net Asset Value ("NAV")

The NAV per unit was $8.55 at June 30, 2019, compared with total unitholders' equity of $8.05 per unit. The variance was due to a market value adjustment of $35.7 million (March 31, 2019 - $47.4 million) which was a result of market value gains related to the Trust's equity accounted investments and renewable power portfolio. During the three months ended June 30, 2019, the market value adjustment decreased by $11.7 million from the prior quarter, primarily due to the Axis Condominiums project realizing income as it reached completion.

The Trust believes that incorporating a market value adjustment is a more useful measure to value development assets. In calculating the market value adjustment, the Trust obtains independent third party appraisals at year end or as significant development milestones are achieved. As development projects progress toward completion and/or reflecting information from recent market transactions, we expect both unitholders equity and NAV to increase based on expected growth and cash flows from these investments. The Trust relies on NAV per unit as a measure of value creation including the market value adjustments on its equity accounted investments and renewable power projects. The closest IFRS measure to NAV per unit is unitholders' equity per unit. For further details regarding non-IFRS measures and a reconciliation, where applicable, to the condensed consolidated financial statements, please refer to the "Financial Overview" section in the Management Discussion and Analysis ("MD&A") under the heading "Reconciliation of Net Asset Value to Total Unitholders' Equity".

Cash Generated from Operating Activities

Cash generated from operating activities for the three months ended June 30, 2019 was $9.3 million compared with $1.7 million in the same period in the prior year. The increase in cash generated from operating activities was primarily due to cash advances of $10.6 million related to the project completion of the above noted equity accounted investment.

Other Operating Highlights in Q2:

Development and Investment Holdings
For the three months ended June 30, 2019, development and investment holdings generated net income of $6.5 million compared with a net loss of $4.8 million in the same period in the prior year. The increase relative to the prior year was due to the aforementioned earnings from equity accounted investments.

Lending Portfolio
For the three months ended June 30, 2019, the lending portfolio generated net income of $3.7 million compared with $4.1 million in the same period in the prior year. The decrease was due to a lower average loan balance in the current period. As at June 30, 2019, the lending portfolio consisted of 9 loans aggregating to a total outstanding balance of $145.3 million with a weighted average effective interest rate of 9.7%.

Income Properties
For the three months ended June 30, 2019, income properties generated net income of $1.6 million compared with $2.6 million in the same period in the prior year. The variance was primarily attributed to $1.1 million of income recorded in the prior period related to marketable securities, which were disposed at the end of the second quarter of 2018.

Discontinued Operations - Renewable Power
For the three months ended June 30, 2019, the renewable power portfolio generated net income of $4.6 million, an increase of $3.1 million relative to the prior year. The variance was primarily due to a deferred income tax recovery balance of $2.1 million recorded during the three months ended June 30, 2019 compared with a deferred income tax expense of $0.5 million in the same period in the prior year, as well as favourable weather conditions. The deferred income tax recovery balance was primarily related to temporary differences and the change in tax rate as a result of the renewable power segment being classified as discontinued operations. As part of the strategic plan to dispose of the Trust's renewable power portfolio, the Trust commenced formal marketing of the segment in the period. Results were presented as discontinued operations in the three months ended June 30, 2019.

Other(1)
The Other segment recorded a net loss of $7.5 million for the three months ended June 30, 2019 compared with a net loss of $3.2 million in the same period in the prior year. During the three months ended June 30, 2019, the Trust recorded a deferred income tax expense of $3.3 million compared with a deferred income tax recovery of $1.0 million in the same period in the prior year. The deferred income tax expense in the current period primarily related to income and capital gains realized on the disposition of certain development and investment holdings assets.

Normal Course Issuer Bid ("NCIB")
From the inception of the Trust's NCIB program in December 2014 to August 7, 2019, the Trust has purchased for cancellation 4.8 million units for a total cost of $30.3 million. During the three months ended June 30, 2019, the Trust repurchased 0.1 million units at a total cost of $0.8 million.

Selected financial and operating metrics for the three and six months ended June 30, 2019 are summarized below:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Consolidated results of operations				
Net income (loss)	**$ 8,839**	$ 115	**$ 9,553**	$ 5,899
Net income (loss) from continuing operations	**4,246**	(1,354)	**4,420**	3,730
Net operating income ("NOI")(2)	**16,710**	6,879	**22,672**	13,336
Cash generated from (utilized in) operating activities	**9,331**	1,681	**14,225**	5,230
Net income (loss) per unit(2)	**0.12**	—	**0.13**	0.08
Net income (loss) per unit from continuing operations(2)	**0.06**	(0.02)	**0.06**	0.05
Cash generated from (utilized in) operating activities per unit(2)	**0.13**	0.02	**0.20**	0.07
Trust unit information				
Distributions declared and paid per unit	**0.10**	0.10	**0.20**	0.20
Units outstanding – end of period	**72,038,551**	72,312,102	**72,038,551**	72,312,102
Units outstanding – weighted average	**71,895,547**	72,483,275	**71,789,168**	72,432,739

The table below provides a summary of the Trust's portfolio as at June 30, 2019, including Total Unitholders' equity and NAV:

As at June 30, 2019		Total unitholders' equity		NAV
Development and investment holdings, including equity accounted investments	$	256,562	$	287,672
Lending portfolio		145,292		145,292
Income properties		103,967		103,967
Renewable power - discontinued operations		61,122		71,372
Other, including tax[3]		13,277		7,647
Total unitholders' equity / NAV[2]	**$**	**580,220**	**$**	**615,950**
Total unitholders' equity / NAV per unit[2]	**$**	**8.05**	**$**	**8.55**

About Dream Alternatives

Dream Alternatives provides investors with access to an exceptional portfolio of real estate development opportunities and alternative assets that would not be otherwise available in a public and fully transparent vehicle, managed by an experienced team with a successful track record in these areas. The objectives of the Trust are to build and maintain a growth-oriented portfolio, provide predictable cash distributions to unitholders on a tax efficient basis, and grow and reposition the portfolio to increase NAV per unit over time. For more information, please visit: www.dreamalternatives.ca

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Footnotes

[1] Includes other Trust amounts not specifically related to the segments.

[2] NOI, net income (loss) per unit, net income (loss) per unit from continuing operations, total unitholders' equity per unit, cash generated (utilized in) operating activities per unit, NAV and NAV per unit are non-IFRS measures. Please refer to cautionary statements under the heading "Non-IFRS Measures" in this press release.

[3] Includes the Trust and other segment level cash and net working capital balances. As at June 30, 2019, NAV includes deferred income tax adjustment of $5.6 million related to the market value adjustments for equity accounted investments and renewable power assets.

Non-IFRS Measures

The Trust's condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). In this press release, as a complement to results provided in accordance with IFRS, the Trust discloses and discusses certain non-IFRS financial measures including NOI, net income (loss) per unit, net income (loss) per unit from continuing operations, cash generated (utilized in) operating activities per unit, market value, NAV, NAV per unit, as well as other measures discussed elsewhere in this release. These non-IFRS measures are not defined by IFRS, do not have a standardized meaning and may not be comparable with similar measures presented by other issuers. The Trust has presented such non-IFRS measures as Management believes they are relevant measures of our underlying operating performance and debt management. Non-IFRS measures should not be considered as alternatives to unitholders' equity, net income, total comprehensive income or cash flows generated from operating activities or comparable metrics determined in accordance with IFRS as indicators of the Trust's performance, liquidity, cash flow and profitability. For a full description of these measures and, where applicable, a reconciliation to the most directly comparable measure calculated in accordance with IFRS, please refer to the "Financial Overview" and "Non-IFRS Measures and Other Disclosures" in the Trust's Management's Discussion and Analysis for the three months ended June 30, 2019.

Forward-Looking Information

This press release may contain forward-looking information within the meaning of applicable securities legislation, including statements relating to our objectives, strategies to achieve those objectives, our beliefs, plans, estimates, projection and intentions, and similar statements concerning anticipated future events, future growth, results of operations, performance, business prospects and opportunities, as well as statements regarding our strategic plan, our unit buyback program (including the amounts to be deployed, the timing, price and size of any offers to unitholders), our expected sources of funding for our unit buyback program and our expectations regarding our capital recycling programs, our plans and proposals for future development projects, including projected sizes, density and uses and expected manner of funding thereof; development timelines including commencement of construction and/ or revitalization of our development projects; expected timing on occupancy on our development investments; proposed methodologies for valuing investments and timing of appraisals. Forward-looking information is based on a number of assumptions and is subject to a number of risks and uncertainties, many of which are beyond the Trust's control, which could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. These risks and uncertainties include, but are not limited to: general and local economic and business conditions including foreign exchange rates, employment levels, mortgage and interest rates and regulations, the uncertainties around the timing and amount of future financings, regulatory risks, environmental risks, consumer confidence, the financial condition of tenants and borrowers, local real estate conditions, adverse weather conditions and variability in wind conditions and solar irradiation, reliance on key clients, partners and personnel, the uncertainties of acquisitions and new projects, inflation and competition. All forward-looking information in this press release speaks as of August 7, 2019. The Trust does not undertake to update any such forward looking information whether as a result of new information, future events or otherwise. Additional information about these assumptions and risks and uncertainties is disclosed in filings with securities regulators filed on SEDAR (www.sedar.com). These filings are also available at the Trust's website at www.dreamalternatives.ca