dream alternatives

DRA.UN-TSX

DREAM ALTERNATIVES REPORTS FIRST 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, May 4, 2020, DREAM HARD ASSET ALTERNATIVES TRUST (TSX: DRA.UN) ("Dream Alternatives", "we" or the "Trust") today reported its financial results for the three months ended March 31, 2020.

For the three months ended March 31, 2020, the Trust reported net income of $5.2 million, up significantly from $0.7 million in the comparative period. The increase in net income was primarily attributable to a foreign currency gain of $4.4 million on the Trust's investment in the Hard Rock/Virgin Hotels Las Vegas ("Hard Rock"), a deferred compensation recovery of $1.4 million relating to the Trust's deferred unit incentive plan ("DUIP"), as well as lower asset management fees incurred in the period. Both the DUIP and asset management fees are measured at the Trust's unit price which has declined in the period to the benefit of the Trust's operating results. These items have been partially offset by a decrease in income from the lending portfolio due to fewer loans outstanding, higher deferred income tax and a decrease in income from the renewable power portfolio, which was sold by the Trust in the fourth quarter of 2019.

In light of the ongoing COVID-19 pandemic, we have performed an in-depth risk analysis on the Trust's operations and underlying investments, including the collectability of scheduled loan repayments and the collection of receivables from tenants within our income properties. The Trust, through its property manager Dream Office Real Estate Investment Trust ("Dream Office REIT"), has been working closely with tenants significantly impacted by COVID-19, assessing rent deferrals on a case-by-case basis. Over 95% of April rent has been collected from tenants of the Trust's income properties. As a result of COVID-19 measures, certain development projects of the Trust temporarily ceased construction as mandated by provincial governments. At this point in time, there is no indication that these temporary measures will result in future cost increases or capital injections not previously contemplated by the Trust. In the three months ended March 31, 2020, there was no impairment recorded on the Trust's assets.

As at March 31, 2020, the Trust had $101.7 million of cash as well as $5.5 million of funds available under its revolving credit facility, which remains undrawn. The Trust's debt-to-total asset value[1] as at March 31, 2020 was 13.2%, up slightly from 12.8% as at December 31, 2019. The Trust's debt-to-total asset value as at March 31, 2020 was 47%, inclusive of project-level debt[1] and assets within our development and investment holdings and equity accounted investments. As at March 31, 2020, the Trust's nearest debt maturity occurs in early 2021 and the Trust has ample cash-on-hand to fund normal course debt repayments, cash requirements for its development investments and ongoing unitholders' distributions, over the next year. As at May 1, 2020, the Trust had $96.9 million of cash-on-hand.

As contemplated in the Trust's strategic plan, first announced in February 2019, we committed to narrowing the gap between the trading price of the Trust's units and net asset value ("NAV")[1], while continuing to build the underlying value of our business. As part of the strategic plan, the Trust suspended its distribution reinvestment and unit purchase plan (the "DRIP") and agreed to satisfy the asset management fees payable to Dream Asset Management Corporation ("DAM") in units of the Trust. Both of these initiatives have supported the Trust's commitment to maintain the existing distribution policy at $0.40 per unit on an annual basis. Additionally, under the strategic plan, the Trust was prepared to deploy $100.0 million towards the Trust's unit buyback program over a three-year period. In August 2019, we successfully completed the repurchase of $32.0 million of units. In the three months ended March 31, 2020, a subsequent offer to acquire an additional $33.0 million of units was terminated as a result of the failure to satisfy certain conditions of the offer due to the COVID-19 pandemic and, the resulting market instability and volatility in the Trust's unit price, which closed at $4.77 per unit as at May 1, 2020, down 40% from our 52-week high of $7.94. We believe that the current market price of our units does not reflect the intrinsic value of the Trust and the units represent an attractive investment opportunity. Subsequent to the termination of the second offer, the Trust has repurchased 338,987 units through its normal course issuer bid at an average price of $4.34 per unit. In the last 15-month period, since announcing the strategic plan, the Trust repurchased 5.2 million units for aggregate proceeds of $39.4 million.

"The repositioning of our portfolio over the last two years to high-quality assets located in core markets, has enhanced the safety of our business and positioned the Trust well, amidst the ongoing uncertainty," said Michael Cooper, Portfolio Manager. "We believe that the Trust is in a strong financial position with ample liquidity and have been actively repurchasing units through our normal course issuer bid as we consider it an attractive use of our capital."

RESULTS HIGHLIGHTS

During the three months ended March 31, 2020, the Trust invested $16.1 million, including transaction costs, into its development projects which have continued to progress towards key milestones and/or completion. In 2020, management currently expects to invest an additional $25.0 to $35.0 million of capital towards existing projects. The Trust's portfolio currently has 3.8 million square feet ("sf") in its development pipeline (inclusive of income-producing assets with redevelopment potential) and over 10,000 condominium or purpose-built rental units (at the project-level). Refer to section 1.6, "Summary of Portfolio Assets" in our Management's Discussion and Analysis ("MD&A") as at March 31, 2020. Notable highlights for the Trust's development projects are detailed below.

In the three months ended March 31, 2020, Kanaal, Zibi's first residential condominium building in Ottawa, Ontario, commenced occupancy. The 71-unit condominium building was over 50% occupied, with further occupancies and closings anticipated in 2020. Zibi is a 34-acre mixed-use waterfront development situated along the Ottawa River in Gatineau, Quebec and Ottawa, Ontario, which will comprise 1,800 residential units and 2.5 million sf of retail and commercial gross leasable area ("GLA") upon completion. In aggregate, there are over 630,000 sf of residential rental, retail and commercial space in various planning/development stages at Zibi. Dream Alternatives has a 40% investment in the project.

During the three months ended March 31, 2020, the Hard Rock closed to the public and commenced construction on the redevelopment/conversion to The Virgin Hotels Las Vegas. Construction is currently underway and remains on schedule with the grand re-opening of The Virgin Hotels Las Vegas slated for late 2020, which will include 1,504 suites, a 60,000 sf fully renovated casino and world-class restaurants. Dream Alternatives has a 10% investment in the project.

As at March 31, 2020, Empire Lakeshore, a high-rise condominium development that includes two towers, the Water Tower and Sky Tower, was substantially complete, with 92% of units occupied and final closings anticipated in 2020. Dream Alternatives has an 80% economic interest in the project and as at March 31, 2020, the Trust's total investment in the project, including fair value adjustments, was $84.9 million.

Development projects are key drivers of future growth for the Trust and are expected to generate attractive returns and future cash flows as milestones are achieved. The Trust expects its development projects will provide attractive profits to the Trust upon their respective completion dates and will contribute to increased value for unitholders over the longer term. The Trust has historically targeted a pre-tax internal rate of return ("IRR")[(1)] of at least 15-20% on new equity investments in residential and mixed-use development projects.

Other Operating Highlights in Q1 2020

Effective this quarter we have redefined our segment information to better reflect how we view and manage the business. In the Trust's reportable operating segments, these investments are classified between development and those which generate recurring income. A summary of our results by segment is described below.

Development

In the three months ended March 31, 2020, the development segment generated net income of $4.1 million relative to a net loss of $0.1 million in the comparative period. As previously discussed, results included a foreign currency gain on the Trust's investment in the Hard Rock of $4.4 million, as well as occupancy income from Zibi. These items were partially offset by a cost-to-complete adjustment realized in the period relating to a closed project in 2019, with no comparable activity in the prior year. Due to the long-term nature of projects in the development segment, results will fluctuate from period-to-period due to the various construction timelines. As our development projects progress towards completion and achieve various milestones, the Trust will expect an increase in income and cash flows from this segment over time.

Recurring Income

During the three months ended March 31, 2020, the Trust's recurring income segment generated net income of $2.7 million, down from $4.7 million in the comparative period. The decrease was primarily related to a lower loan balance outstanding on the Trust's lending portfolio. During the three months ended March 31, 2020, the Trust received a scheduled lump-sum repayment of $8.0 million on a loan related to a property located in the Greater Vancouver Area.

Other[(2)]

In the three months ended March 31, 2020, the Other segment recorded a net loss of $1.6 million relative to a loss of $4.4 million in the comparative period. The improvement of $2.8 million was driven by a lower asset management fee due to a reduction in the asset base fee and the settlement of fees in Trust units, in addition to a deferred compensation recovery in the current period. Effective April 2019, Dream Alternatives and DAM agreed to satisfy management fees payable to DAM in units of the Trust. The Trust units are valued at $8.74 per unit, equal to the NAV[(1)] as at December 31, 2018, for purposes of determining the number of units to be issued. For accounting purposes, the asset management fees are recorded at the Trust's trading price on the date of settlement, which was $4.92 for the three months ended March 31, 2020. As a result, the Trust's asset management fee recognized in the period is $1.6 million lower relative to the prior year, to the benefit of the Trust.

Cash Generated from Operating Activities - Continuing Operations

Cash generated from operating activities from continuing operations for the three months ended March 31, 2020, was $0.4 million relative to $3.5 million in the comparative period. The decrease in cash generated from operations was due to changes in non-cash working capital as well as the receipt of cash distributions related to the Trust's investment in Empire Brampton in the comparative period with no similar cash distributions received in the current period.

Selected financial and operating metrics for the three months ended March 31, 2020 are summarized below:

For the three months ended March 31,	**2020**	2019
Consolidated results of operations		
Net income	**$ 5,152**	$ 714
Net income from continuing operations	**5,152**	174
Net operating income ("NOI")[1]	**2,828**	5,962
Cash generated from operating activities from continuing operations	**394**	3,465
Net income per unit[1]	**0.07**	0.01
Net income from continuing operations per unit[1]	**0.07**	N/A
Cash generated from operating activities from continuing operations per unit[1]	**0.01**	0.05
Distributions declared and paid per unit	**0.10**	0.10
Units outstanding – end of period	**69,121,551**	72,148,991
Units outstanding – weighted average	**69,076,108**	72,562,572

The table below provides a summary of the Trust's portfolio as at March 31, 2020, including total unitholders' equity:

As at	**March 31, 2020**	December 31, 2019
Development	**$ 290,920**	$ 271,130
Recurring income	**192,171**	197,197
Other[2]	**85,697**	99,224
Total unitholders' equity	**568,788**	567,551
Total unitholders' equity per unit[1]	**8.23**	8.25
Total debt	**89,051**	89,269
Total assets	**676,906**	696,141
Cash	**101,746**	117,787

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 provide investors with a portfolio of high-quality real estate development opportunities and alternative assets, concentrated in core geographic markets; balance growth and stability of the portfolio, increasing cash flow, unitholders' equity and NAV[1] over time; and provide predictable cash distributions to unitholders on a tax-efficient basis. For more information, please visit: www.dreamalternatives.ca.

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Footnotes

(1) For the Trust's definition of the following non-IFRS measures: NAV, debt-to-total asset value, debt-to-total asset value inclusive of project-level debt, internal rate of return, NOI, net income per unit, net income from continuing operations per unit, total unitholders' equity per unit and cash generated from operating activities from continuing operations per unit and a reconciliation of NOI to net income (loss), please refer to the Non-IFRS Measures and Other Disclosures section of this MD&A.
(2) Includes other Trust amounts not specifically related to the segments.

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 per unit, net income per unit from continuing operations, cash generated from operating activities from continuing operations per unit, NAV, NAV per unit, debt-to-total asset value, debt-to-asset value inclusive of project-level *debt, total unitholders' equity 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 (continuing), 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 "Non-IFRS Measures and Other Disclosures" section in the Trust's Management's Discussion and Analysis for the three months ended March 31, 2020.*

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, projections 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 unit buyback program, including the number of units to be acquired and the timing thereof; our commitment to maintain an annual distribution of $0.40; 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 and returns on our development investments; proposed methodologies for valuing investments and timing of appraisals; anticipated effect of our developments on our NAV, unitholders' equity, growth and cash flows in future periods; our targeted pre-tax IRR for development projects; expected profits from our development projects; and our expectations of changes in our NAV in future periods. 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: adverse changes in general economic and market conditions; the impact of the novel coronavirus (COVID-19) pandemic on the Trust; 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; 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 May 4, 2020. The Trust does not undertake to update any such forward-looking information whether as a result of new information, future events or otherwise, except as required by law. 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.