

# **StorageVault Canada Inc.**

(the "Corporation")

## **Form 51-102F1 Management's Discussion and Analysis For the Three Months Ended March 31, 2015**

This management's discussion and analysis (MD&A) should be read in conjunction with the Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2015, and the audited consolidated financial statements and notes to the consolidated financial statements for the year ended December 31, 2014. The following discussion and analysis provides information that management believes is relevant to the assessment and understanding of the Corporation's results of operations and financial condition.

The Corporation's unaudited interim consolidated financial statements for the three months ended March 31, 2015 and the audited consolidated financial statements for the year ended December 31, 2014 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This MD&A contains forward-looking information. All statements, other than statements of historical fact, included in this MD&A may be forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. In particular, forward-looking information included in this MD&A includes statements with respect to: the Corporation's outlook as to the market for self-storage, economic conditions, the availability of credit and the general outlook for the Corporation contained in the "Outlook" section of this MD&A; the expectation of cash flows discussed in the "Nature of Business" and "Liquidity and Capital Resources" sections; and expected inventory levels of PUPS units contained in the "Revenue from Income Producing Properties" section of this MD&A.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Corporation to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to:

- capital market conditions
- liquidity in the credit markets and/or changes in interest rates which may affect timing and availability of external financing on acceptable terms
- general business and economic uncertainties
- changes in the level of competition
- delay or failure to receive board or regulatory approvals
- changes in legislation including environmental legislation affecting the Corporation
- adverse weather conditions
- conclusions of economic evaluations, and
- lack of qualified, skilled labour or loss of key individuals.

Although the Corporation has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The factors identified above are not intended to represent a complete list of the factors that could affect the Corporation.

The forward-looking information in this MD&A should not be relied upon as representing the Corporation's views as of any date subsequent to the date of this MD&A. Such forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to: the ability of the Corporation to obtain necessary financing, satisfy conditions under previously announced acquisition agreements, or satisfy any requirements of the TSX Venture Exchange (the "TSXV") with respect to these acquisitions and any related private placement; the level of activity in the self-storage business and the economy generally; consumer interest in the Corporation's services and products; competition; and anticipated and unanticipated costs. The Corporation undertakes no obligation to publicly update or review any forward-looking information, except in accordance with applicable securities laws. Historical results of operations and trends that may be inferred from this MD&A may not necessarily indicate future results from operations.

All amounts included in this MD&A are in Canadian dollars.

Additional information relating to StorageVault Canada Inc. can be found at [www.sedar.com](http://www.sedar.com).

This MD&A is dated May 27, 2015 and is in respect of the period from January 1, 2015 to March 31, 2015. The discussion in the MD&A focuses on this period.

## NON-IFRS FINANCIAL MEASURES

The Corporation uses non-IFRS financial measures to assess its operating performance. Securities regulators require that companies caution readers that earnings and other measures adjusted to a basis other than IFRS do not have a standardized meaning and may not be comparable to similar measures used by other companies. Such non-IFRS measures include:

- a) Funds from Operations (“FFO”) – FFO is defined as net income (loss) excluding gains or losses from the sale of depreciable real estate, plus depreciation, amortization, stock based compensation expenses, and deferred income taxes; and after adjustments for equity accounted entities and non-controlling interests. FFO should not be viewed as an alternative to cash from operating activities, net income, or other measures calculated in accordance with IFRS. The Corporation believes that FFO can be a beneficial measure, when combined with primary IFRS measures, to assist in the evaluation of the Corporation’s ability to generate cash and evaluate its return on investments as it excludes the effects of real estate amortization and gains and losses from the sale of real estate, all of which are based on historical cost accounting and which may be of limited significance in evaluating current performance.
- b) Property Net Operating Income (“NOI”) – NOI is defined as rent from income producing properties less property operating costs. NOI does not include interest expense or income, depreciation and amortization, corporate administrative costs, stock based compensation costs or taxes. NOI assists management by assessing profitability from principal business activities without regard to the manner in which these activities are financed or amortized. “NOI Margin” is the NOI for a given time period, divided by the revenue from income producing properties for that same time period.

## NATURE OF BUSINESS

### Business Overview

The Corporation was incorporated on May 31, 2007. It is publicly traded on the TSXV under the symbol SVI. As at March 31, 2015 it owned and operated storage facilities in eight Canadian cities, all of which include the PUPS – Portable Units for Portable Storage (“PUPS”) portable storage system:

- Trans Can Mini Stor (“Trans Can”) and PUPS in Regina, SK
- Kenaston Self-Storage (“Kenaston”) and PUPS in Winnipeg, MB
- PUPS in Saskatoon, SK
- B&B Mini Storage (“B&B”) and PUPS in Cambridge, ON
- Parksville Mini Storage (“Parksville”) and PUPS in Parksville/Nanaimo, BC
- Space Place Self Storage (“Calgary Space Place”) and PUPS in Calgary, AB
- Airport Road Self Storage (“Airport Road”) and PUPS in London, ON
- PUPS in Edmonton, AB

Additionally, one PUPS location continues to operate in Ottawa, ON as a franchisee of the Corporation.

The newest PUPS operations were launched in London and Edmonton in June 2014. A typical PUPS operation will take 24 to 48 months to reach maturity, and will usually incur start-up losses during the early lease-up phase.

The Corporation provides both “fixed” and “portable” self-storage. Fixed self-storage is sometimes referred to as mini-storage. Under this model, a customer rents a storage space in the operator’s premises to store personal or commercial possessions. Rental agreements are usually on a month-to-month basis. Tenants can vacate with as little as one month notice. The storage facility will consist of one or more buildings partitioned into individual storage units with separate doors. Depending on the construction, storage units are accessed by drive-up to each unit, or through an interior hallway. Units can be climate controlled or simple cold storage. The tenant provides his or her own lock for the door, and is the only person with access to the unit when it is rented. Often, fixed storage facilities also provide covered or uncovered outdoor parking spaces for boats, cars and recreational vehicles.

Through its Canadian Master Franchise agreement with Canadian PUPS Franchises Inc., the Corporation also provides portable storage services. The PUPS system uses galvanized steel storage containers ranging from 2.3 meters to 6 meters in length. This premium priced service delivers the storage unit to the customer, as opposed to the customer having to transport his or her possessions to a traditional fixed storage location. Once loaded, the PUPS container can stay at the customer’s location, or be transported to the Corporation’s compound for longer term storage. The PUPS model generates revenue through both the rental of the storage container and the fees to deliver the container to and from the customer’s location.

Management believes that the PUPS storage model is complementary to the fixed storage operations. It appeals to both residential and commercial customers that:

- would not normally use a traditional fixed storage facility because they haven’t the means to transport their possessions.
- are moving between locations and require temporary storage, but do not want to move their possessions to a fixed storage unit, only to move them again to their new location in a few days or weeks. The PUPS container allows them to pack and unpack only once.
- are moving between locations and do not want to pay the high costs of a moving company. This do-it-yourself customer appreciates the lower cost afforded by the PUPS model.
- are renovating an existing location. They need to remove their possessions from their building, but want to keep the possessions at their location for easy access. PUPS will place a container at their residence or business, and that container can stay there until the renovation is complete.

When paired with a traditional fixed storage facility, the PUPS model also offers benefits in cost savings and promotion:

- Often, fixed storage facilities have surplus land that is undeveloped, or utilized for low return outdoor parking spaces. Redeploying some of this land for PUPS storage significantly increases the revenue per square foot earned from that surplus land.
- Many of the overhead costs necessary to operate a PUPS facility, such as labor, telephone, and some occupancy costs, are already being covered by the existing fixed storage facility.
- The basic premise behind renting fixed or portable storage units is similar, so existing staff at a fixed storage facility can easily learn and integrate the PUPS systems into day-to-day operations.
- On-site staff has the ability to cross sell. Customers who may not be able to afford the premium price of a PUPS container can be offered a lower cost fixed storage unit. Or customers looking for fixed storage who were unaware of the existence of portable storage can be up-sold to a premium product.

As the network of PUPS locations has grown, the Corporation has added intercity moves using PUPS containers to its range of services. Aimed at a do-it-yourself customer, the Corporation supplies a PUPS container in the customer's existing city. Once it is filled, it is moved via long-haul trucking to the customer's new city. This door-to-door service can provide the customer the option to move their possessions great distances at significant cost savings compared to traditional moving companies.

The Corporation's strategic objective is to own, acquire and operate self-storage facilities across Canada as well as develop a portable storage business to access an untapped market in the Canadian storage industry. The Corporation will focus on acquiring and operating self-storage facilities with proven cash flows, superior location in relationship to markets, and excess physical space to allow rapid deployment of portable storage operations. Financing for this growth is intended to come from a combination of cash from operations, mortgage financing, the assumption of debt, and the issuance of additional common shares or other securities.

## Portfolio

As at March 31, 2015, the Corporation owned and operated the following fixed storage facilities and PUPS portable storage operations:

	<u>Acquired</u>	<u>Units</u>	<u>Rentable Square Feet</u>
<b>FIXED STORAGE</b>			
Trans Can Mini Stor, Regina, SK	May 1, 2008	342	39,217
Kenaston Self Storage, Winnipeg, MB	March 2, 2009	534	47,300
B & B Mini Storage, Cambridge, ON	May 10, 2010	188	26,100
Parksville Mini Storage, Parksville, BC	November 1, 2010	138	26,719
Space Place Self Storage, Calgary, AB	May 1, 2012	447	34,034
Airport Road Self Storage, London, ON	March 27, 2013	<u>340</u>	<u>41,488</u>
Total		1,989	214,858
<b>PORTABLE STORAGE</b>			
Trans Can Mini Stor, Regina, SK	December 31, 2008	388	37,408
Kenaston Self Storage, Winnipeg, MB	--	248	23,254
Saskatoon, SK	--	355	33,880
B & B Mini Storage, Cambridge, ON	--	293	25,991
Parksville Mini Storage, Parksville, BC	--	138	12,936
Space Place Self Storage, Calgary, AB	--	252	24,542
Airport Road Self Storage, London, ON	--	104	9,401
Edmonton, AB	--	<u>66</u>	<u>6,426</u>
Total		1,844	173,838

## Highlights for the Three Months Ended March 31, 2015

Selected financial highlights for the Corporation:

	Three Months Ended March 31	
	<u>2015</u>	<u>2014</u>
Total Revenue	1,104,594	1,081,882
<i>Year over Year change \$</i>	22,712	
<i>Year over Year change %</i>	2.1%	
Net Income (Loss)	(374,472)	(331,226)
<i>Year over Year change \$</i>	(43,246)	
<i>Year over Year change %</i>	-13.1%	
Funds from Operations		
From operating properties	301,653	337,707
From non-operating activities	(277,070)	(351,493)
Total	24,583	(13,786)
<i>Year over Year change \$</i>	38,369	
<i>Year over Year change %</i>	278.3%	

The Corporation grows revenue by improving operations in locations that it has operated in past years, and by adding new revenue streams from acquired self-storage facilities and newly launched PUPS facilities. The table below analyzes revenues separately for “Existing Sites” which are defined as those that the Corporation has operated for the entirety of the 2015 and 2014 fiscal years. “New Sites” are those that were acquired or launched in 2014 or 2015. Comparative figures for the New Sites and Existing Sites categories may differ from amounts reported in previous MD&A reports.

Prior to June 2014, the Corporation managed five self-storage locations and two PUPS locations in Ontario on behalf of a third party owner. In June 2014, the third party gave SVI notification that it would cease the management contract within 60 days. Revenue from this management contract is shown separately as “Management fees” in order to distinguish it from that of the ongoing Existing Sites.

## Revenue Summary

	<u>Three Months Ended March 31</u>		<u>Year over Year Change</u>	
	<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>
Existing Sites				
Self Storage	637,265	658,418	(21,153)	-3.2%
PUPS	407,932	414,997	(7,065)	-1.7%
	<u>1,045,197</u>	<u>1,073,415</u>	<u>(28,218)</u>	<u>-2.6%</u>
New Sites				
Self Storage	-	-	-	-
PUPS	51,316	-	51,316	-
	<u>51,316</u>	<u>-</u>	<u>51,316</u>	<u>-</u>
Management fees	2,013	2,446	(433)	-17.7%
Other	6,068	6,021	47	0.8%
Total				
Self Storage	637,265	658,418	(21,153)	-3.2%
PUPS	459,248	414,997	44,251	10.7%
Discontinued	2,013	2,446	(433)	-17.7%
Other	6,068	6,021	47	0.8%
	<u>1,104,594</u>	<u>1,081,882</u>	<u>22,712</u>	<u>2.1%</u>

Year over year revenue at Existing self-storage operations decreased by \$21,153 or 3.2%. The largest change was experienced at the Trans Can site. Other sites produced similar revenues in Q1 2015 compared to Q1 2014. These self-storage facilities provide the Corporation with a relatively consistent and predictable cash flow to undertake operations and growth.

PUPS operations at Existing Sites experienced a revenue decrease of \$7,065 or 1.7% in Q1 2015 compared to Q1 2014. The decrease was most prevalent in Calgary and Regina where winter weather conditions affected results. Local economic conditions (housing trends, population growth rates and weather, to name a few) can affect short term rental trends in any given PUPS location.

The Corporation now rents "fixed PUPS" in certain locations to augment portable rentals. These fixed PUPS are PUPS containers that are placed in a semi-permanent fashion and rented at a discounted rate. The customer brings his/her possessions to the fixed PUPS unit, rather than having the container delivered. Fixed PUPS have been implemented in the Cambridge, Saskatoon and Calgary markets.

**Net Income/(Loss) Summary**

	<u>Three Months Ended March 31</u>		<u>Year over Year Change</u>	
	<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>
Existing Sites				
Self Storage	62,356	47,961	14,395	30.0%
PUPS	(68,710)	(64,090)	(4,620)	-7.2%
	<u>(6,354)</u>	<u>(16,129)</u>	<u>9,775</u>	<u>60.6%</u>
New Sites				
Self Storage	-	-	-	n/a
PUPS	(72,392)	-	(72,392)	n/a
	<u>(72,392)</u>	<u>-</u>	<u>(72,392)</u>	<u>n/a</u>
Management Fees	2,013	38,370	(36,357)	-94.8%
Corporate activities	(297,739)	(353,467)	55,728	15.8%
Total				
Self Storage	62,356	47,961	14,395	30.0%
PUPS	(141,102)	(64,090)	(77,012)	-120.2%
Discontinued	2,013	38,370	(36,357)	-94.8%
Other	(297,739)	(353,467)	55,728	15.8%
	<u>(374,472)</u>	<u>(331,226)</u>	<u>(43,246)</u>	<u>-13.1%</u>

The Net Loss of the Corporation increased by \$43,246 in Q1 2015 compared to Q1 2014 from a net loss of \$331,226 to a net loss of \$374,472.

In the Existing self-storage operations, the year over year net income improved by \$14,395 or 30.0%. Gains were made at Trans Can and Kenaston, where carefully managed operating costs and reduced interest expense accounted for much of the improvement. Winter snow removal costs, in particular, were less in 2015 than the same period last year.

The net loss of \$64,090 from Existing PUPS sites in Q1 2014 increased to a net loss of \$68,710 in Q1 of 2015. The slower start to the year at the PUPS sites in Calgary and Regina, as was noted in the revenue analysis above accounted for most of the year over year change. Management believes that this is primarily due to the cold weather on the Prairies through much of Q1 which suppressed demand for portable storage. Depreciation expense also has an influence on net income. PUPS locations incur a significant amount of depreciation and amortization charges in early years, relative to their level of revenue, as PUPS containers and equipment is acquired. The Corporation incurred \$196,916 of depreciation at Existing PUPS sites in Q1 2015 compared to \$171,935 at the same sites in Q1 2014. This amounts to \$24,981 of additional non-cash expenditure on a year over year basis.

The New Sites for PUPS are the recently launched locations in London and Edmonton. These have generated year to date losses of \$72,392 as start-up costs exceed revenues. This is as expected. The most significant early start-up costs are labor and advertising. Both of these costs are incurred to help build current and future revenues at those sites. Included in the losses for both of these sites is \$43,313 of non-cash depreciation and amortization which represents almost 60% of the total combined losses for these startup locations.



The decrease in the year over year loss from Corporate activities is due to the timing of management fee payments. Each year, the Corporation pays a performance fee to Detteson Management Inc. based on the previous year's audited financial results (see "Related Party Transactions"). In 2014, this fee which amounted to \$99,131 was paid in the first quarter of the fiscal year. In 2015, the Corporation had not yet authorized payment of a similar fee as at March 31, 2015.

## **Outlook**

When considering Existing Sites, the financial results of the Corporation are dictated to a large extent by the level of occupancy in those facilities. One of management's primary and continuing focuses is to attract and retain tenants and keep occupancy at acceptable levels.

The level of occupancy of a given facility is generally dependent on the local economy and the level of competition near that facility. Most self-storage tenants will not travel more than 10 or 20 kilometers to rent a storage unit. PUPS customers may live farther from the PUPS facility, but because of delivery costs most are within 100 kilometers of the PUPS facility. In addition to location, the physical condition of the facility, the rental rates compared to local competitors, and level of service from on-site staff all factor into the facility's ability to attract and retain tenants. Like many businesses, self-storage can feel the effects of changes in employment and levels of disposable income in the economy. Storage facilities in locations where new and used housing sales are strong, or money is available for renovations to homes and businesses, tend to experience higher levels of occupancy than those where the economy is not as robust.

The outlook for self-storage operations is for modest growth in net operating income, stemming mostly from continued efforts to streamline operations and reduce costs. Some room exists for pricing adjustments to generate higher occupancy rates; however, management is very careful not to price its offerings such that it loses competitive advantages.

In 2013, the Corporation implemented a national Call Centre to provide improved customer service, to serve as a daily back-up to on-site managers who are temporarily occupied with other customers, and to provide personalized customer service outside of normal business hours. The Call Center has also been enabled to engage potential customers on the corporate website through the use of on-line chats. During peak rental seasons, the Call Center is staffed by up to three representatives and operates up to 12 hours per day, including weekends. The incremental cost to the Corporation of this Call Centre is predominately in the form of additional staff wages. However, management considers the benefits of being able to reach more customers, across multiple time zones, with well trained and knowledgeable sales staff as outweighing the costs. Results to date have been favorable.

New competitors often try to jump-start their lease-up periods by offering significant move-in discounts to new customers. This will result in short term fluctuations in rentals at existing sites. Management has historically provided select discounts - usually in the winter months when customers tend to avoid moving possessions or renovating homes. The Corporation may have to provide other discounts in these select markets to match competitive forces and retain its customer base. The effect on overall revenues is not expected to be significant, but it may be enough to slow the rate in growth of revenues that has been experienced in past years.

A major focus for the Corporation for 2015 will be the continued growth of PUPS operations. Unlike self-storage buildings which have a relatively finite ability to expand, the PUPS operations can be tailored to market demand. This means continually adjusting the number of containers in inventory and the amount of support activities (staffing, advertising etc.) to meet demand. In addition, the Corporation is experiencing a noticeable demand from customers who want to physically relocate their possessions to a new city. Management believes this inter-city moving will become a material revenue source in future months and is continually assessing processes to adequately meet the expected demand.

The Corporation will also continue to seek out new self-storage acquisition targets in markets not already served by the Corporation. Such acquisitions would further augment cash flows from self-storage, and would be strategically located in locations where a PUPS operation could be launched to provide portable storage in an underserved market.

### **Subsequent Events**

On December 2, 2014 the Corporation entered into a purchase agreement (the "Purchase Agreement"), with Access Self Storage Inc. ("Access") and Cubeit Portable Storage Canada Inc. ("Cubeit"), collectively referred to as (the "Vendors"), pursuant to which the Corporation agreed to purchase all of the portable storage assets and business of Cubeit and certain of the self-storage assets and business of Access (the "Purchased Assets") for an aggregate purchase price of \$51,275,000, subject to customary adjustments (the "Proposed Acquisition"). The Vendors are not related parties to the Corporation. Pursuant to the terms of the Purchase Agreement, the Proposed Acquisition would occur in two tranches. The purchase price for the first tranche (the "First Tranche") would be \$25,575,000, subject to adjustments, including dollar for dollar adjustments if the appraised value of the Purchased Assets is more or less than the purchase price. The purchase price for the second tranche (the "Second Tranche") would be \$25,700,000, subject to adjustments, including dollar for dollar adjustments if the appraised value of the Purchased Assets is more or less than the purchase price.

On April 28, 2015, the Corporation completed the closing of the First Tranche. Pursuant to the First Tranche closing, the Corporation acquired four self-storage locations with an aggregate of approximately 1,500 rental units with approximately 133,000 square feet of rentable self-storage space and the entire Cubeit portable storage business and the rights to operate such business in Canada. The Cubeit business currently operates out of 9 locations and includes 1,254 portable storage container units. With the completion of the First Tranche closing the Corporation will operate 10 self-storage facilities and 18 portable locations covering the provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, and Nova Scotia.

The purchase price for the First Tranche was \$26,475,000 (subject to customary adjustments). For the First Tranche, the sum of \$11,480,381 was paid by the issuance of 30,211,529 common shares of the Corporation ("Common Shares") at a deemed price of \$0.38 per Common Share, which Common Shares are subject to a hold period that expires on August 29, 2015. The balance of the purchase price for the First Tranche of \$14,928,808 (after standard and customary adjustments) was paid in cash by drawing on the Corporation's credit facilities (see below). The closing of the First Tranche received final acceptance of the TSX Venture Exchange on May 20, 2015.

The 30,211,529 Common Shares were issued to Access and upon completion of the First Tranche, Access will own or control 30,211,529 Common Shares or approximately 45.16% of the total issued and outstanding Common Shares. Access may increase or decrease its investment in the Corporation depending on market conditions or any other relevant factors. In addition, Access may receive additional Common Shares pursuant to the Second Tranche, as described below.

In conjunction with the closing of the First Tranche, the board of directors of the Corporation has been reconstituted and is now composed of Alan Simpson, Rob Duguid, as the nominee of PFM Capital Inc., and, Steven Scott, Iqbal Khan, and Blair Tamblyn, as the three nominees of the Vendors.

In connection with the closing of the First Tranche, the Vendors have received an assignment from Detteson Management Inc. of the existing management agreement (the "Management Agreement") entered into between the Corporation and Detteson Management Inc. as amended as a result of the acquisition of the Purchased Assets (Detteson Management Inc. is wholly owned by Alan Simpson, the Executive Vice-Chairman and a director of the Corporation and Glenn Fradette, the former CFO of the Corporation). The Management Agreement provides for certain executive management services in connection with the day-to-day management of the Corporation. In addition, the Vendors have completed the purchase of all of the issued and outstanding shares in the capital of Canadian PUPS Franchises Inc., which is the master franchisor of the Corporation's PUPS portable storage business.

The closing of the Second Tranche of the acquisition of the Purchased Assets is expected to occur no later than October 1, 2015, but may occur on an earlier or later date upon the agreement of the parties. A condition to the closing of the Second Tranche is the approval of the Second Tranche by an acquisition committee made up of individuals (including the former directors of the Corporation and representatives of the Vendors) the majority of which are unrelated to the Vendors (the "Acquisition Committee"). In addition, completion of the Second Tranche is subject to customary closing conditions. There can be no assurance that the Second Tranche will be completed as proposed or at all.

The Corporation has established a five year business plan (the "Five Year Business Plan") with the goal of enhancing the possibility that future acquisitions by the Corporation of assets owned by Access (other than the Second Tranche, such acquisitions are referred to as "Future Access Acquisitions") may occur in order to grow the business and operations of the Corporation. Due to the related party nature of such Future Access Acquisitions, and because of the reconstitution of the Corporation's board as disclosed above, the Corporation has established the Acquisition Committee and an Acquisition Committee Mandate. The purpose of the Acquisition Committee and the Acquisition Committee Mandate is to ensure that Future Access Acquisitions are free from any related party influences. In general, the intent of the Acquisition Committee Mandate is to require Acquisition Committee approval before the Corporation is able to proceed with a Future Access Acquisition.

In conjunction with the closing of the First Tranche, the Corporation has entered into a second amended and restated credit agreement (the "Credit Agreement") with a Canadian Chartered Bank, which amends and restates the terms of its existing credit agreement with the bank. Pursuant to the Credit Agreement the Corporation has available credit facilities in the amount of up to \$33 million. Such credit facilities are comprised of: (i) a \$28 million non-revolving reducing term loan; and (ii) a \$5 million revolving reducing capex line. In addition, the Credit Agreement includes a treasury risk management facility subject to a limit of \$2 million. Financing under the terms of the Credit Agreement is subject to a number of customary and usual conditions for this type of transaction, including but not limited to: (i) satisfactory completion of loan, security and account documentation, and lender due diligence; (ii) satisfactory compliance by the Corporation with financial and non-financial covenants normally applicable to transactions of this nature; and (iii) compliance by the Corporation with all material laws, including environmental regulations. The Corporation has drawn down \$33,000,000 under the Credit Agreement.

Concurrent with the closing of the acquisition of the Purchased Assets, the Corporation has granted a total of 2,901,000 options to purchase common shares of the Corporation to directors, officers, employees and consultants of the Corporation, with an exercise price of \$0.41 and an expiry date of April 28, 2025.

## SELECTED ANNUAL INFORMATION

The Corporation was incorporated on May 31, 2007. A summary of selected financial information for the Corporation's fiscal years ended December 31, 2014, 2013, and 2012 is as follows.

	<u>Fiscal Year Ended December 31, 2014</u>	<u>Fiscal Year Ended December 31, 2013</u>	<u>Fiscal Year Ended December 31, 2012</u> <i>(restated)</i>
Total Revenue	\$5,260,932	\$4,896,159	\$4,007,995
Net Income / (Loss)			
Total	(\$ 1,231,876)	(\$ 788,724)	(\$ 797,861)
Per share, basic and diluted	(\$0.034)	(\$0.024)	(\$0.024)
Total Assets	\$28,604,192	\$25,714,728	\$23,629,643
Long Term Liabilities	\$18,879,519	\$20,818,778	\$18,179,971
Dividends declared-common shares	nil	nil	nil

## RESULTS OF OPERATIONS

### Property Operations

The storage industry in Canada tends to be seasonal. A significant portion of demand is generated from residential customers who are either moving to a new residence or renovating an existing home. Demand wanes in winter months as cold temperatures discourage this type of activity. At the same time, operating costs increase in the winter. Heating costs (for those facilities with heated storage) and snow removal costs are at their peak. The result is a historically higher operating cost percentage, and lower revenue and NOI margin in Q1 and Q4 of each year.

The Corporation's quarterly results are also affected by the timing of acquisitions and the start-up of PUPS operations. Certain expenses, including some due diligence and professional fees cannot be capitalized. These are instead expensed in the weeks surrounding a related acquisition. The Corporation also incurs recurring and non-recurring start-up expenses when a PUPS location is opened and is in lease-up. These costs may include labor, training, travel, advertising or office expenses.

A summary of the results of operations is as follows:

	2015 Fiscal Year ('000 omitted)		2014 Fiscal Year ('000 omitted)				
	Q1	Total	Q1	Q2	Q3	Q4	Total
<b>Fixed Storage</b>							
Property Revenue**	639	639	697	773	683	672	2,825
Operating Costs	297	297	298	323	349	329	1,299
NOI	342	342	399	450	334	343	1,526
NOI Margin	53.5%	53.5%	57.2%	58.2%	48.9%	51.0%	54.0%
<b>PUPS Portable Storage</b>							
Property Revenue	459	459	415	626	793	577	2,411
Operating Costs	305	305	267	404	415	370	1,456
NOI	154	154	148	222	378	207	955
NOI Margin	33.6%	33.6%	35.7%	35.5%	47.7%	35.9%	39.6%
<b>Combined</b>							
Property Revenue	1,098	1,098	1,112	1,399	1,476	1,249	5,236
Operating Costs	602	602	565	727	764	699	2,755
NOI	496	496	547	672	712	550	2,481
NOI Margin	45.2%	45.2%	49.2%	48.0%	48.2%	44.0%	47.4%

\*\* including management fees from the Conundrum management agreement

### Revenue from Income Producing Properties

Total revenue from fixed storage properties and fixed storage property management for the three months ended March 31, 2015 was \$639,278 compared to \$696,788 for the same period last year – a decrease of \$57,510. The loss of the management contract in the summer of 2014 saw management fee and call centre revenue decline by \$48,057 on a year over year basis, accounting for a substantial portion of the decrease. Operating costs for fixed storage have remained relatively steady, decreasing from \$298,364 in 2014 to \$297,393 in 2015. Overall, the NOI margin for the first quarter of 2015 fiscal year was 53.5% compared to the 57.2% experienced in the first quarter of 2014.

The revenue from PUPS operations was \$459,248 in first three months of 2015, an increase of \$44,251 over the \$414,997 earned from PUPS in the same three months of 2014. \$51,316 of new revenue was generated from new PUPS locations that were launched in Edmonton and London in June of 2014. The development of a PUPS operation typically takes 2 to 4 years from inception to maturity. This time is necessary for the local market to not only learn of the PUPS operation through advertising and promotion, but also to understand the concept of portable storage, which is still a new concept in many markets. The overall level of PUPS revenue inside the Corporation is a function of both the size of the available rental fleet, and the vacancy level within that fleet. At March 31, 2015, the Corporation had 1,844 containers in its fleet – an increase of 31.2% over the 1,405 on hand at March 31, 2014.

A summary of unit occupancy rates at the end of each fiscal quarter for the self-storage locations is as follows:

	2015 Fiscal Year	2014 Fiscal Year			
	Q1	Q1	Q2	Q3	Q4
<b>Fixed Storage</b>					
Trans Can Mini Stor, Regina, SK	71.6%	74.1%	78.4%	76.6%	70.8%
Kenaston Self Storage, Winnipeg, MB	86.0%	88.8%	94.4%	89.2%	83.9%
B&B Mini Storage, Cambridge, ON	89.4%	90.5%	82.5%	96.3%	89.9%
Parksville Mini Storage, Parksville, BC	93.5%	76.1%	73.2%	85.5%	87.0%
Space Place Self Storage, Calgary, AB	80.1%	85.4%	85.0%	85.5%	83.4%
Airport Road Self Storage, London, ON	72.4%	68.1%	74.3%	74.7%	76.5%

Management considers a long term average occupancy rate of 85% as optimal (giving effect for seasonal variations). Any lower, and the assets are not being used efficiently. Any higher, and it is indicative that pricing may not be in line with demand. Rates at Trans Can, Space Place and Airport Road are below the optimal 85%; however, this can also be an indicator of seasonality as weather conditions in the month of March can affect occupancy. In general, occupancy rates are consistent with the same period last year.

Occupancy percentages alone do not tell the whole story when it comes to PUPS. This is because the number of PUPS containers available for rent changes (increases) over time as the locations grow toward maturity. An alternative to occupancy rate comparisons for PUPS is simply a comparison of the number of units rented at a given date. The number of rented PUPS increased from 785 at the end of March, 2014 to 946 by the end of March, 2015. This represents an increase of 20.5%.

## Property Net Operating Income (NOI)

As with revenues, the analysis of NOI can be divided into Existing Sites and New Sites. Self-storage NOI is often more consistent year over year, as the gains to be made there are mostly from changes in occupancy of a fixed number of units or from cost efficiencies. This segment of the Corporation's operations continues to provide stable, long-term and predictable cash flow. PUPS NOI can vary more widely, depending on the number of units in the rental fleet at any point in time, and upon outside factors such as weather conditions.

The NOI for the three months ended March 31, 2015 was \$50,691 lower than that of Q1 2014. Improved occupancy rates at PUPS locations were offset by the loss of NOI from the last year's management contract. Existing PUPS NOI was up 10.0% on a year over year basis, with Cambridge and Saskatoon leading the way. The Corporation decided to expand PUPS into Edmonton and London in the 2014 fiscal year. As is expected, the start-up costs generate NOI losses in the early months of operations. These two PUPS locations generated a negative NOI of \$8,888. This investment into new PUPS sites is expected to produce benefits in 2 to 3 years once the lease-up process nears completion.

### Property NOI

	<u>Three Months Ended March 31</u>		<u>Year over Year Change</u>	
	<u>2015</u>	<u>2014</u>	<u>\$</u>	<u>%</u>
Existing Sites				
Self Storage	339,872	360,054	(20,182)	-5.6%
PUPS	162,769	148,033	14,736	10.0%
	<u>502,641</u>	<u>508,087</u>	<u>(5,446)</u>	<u>-1.1%</u>
New Sites				
Self Storage	-	-	-	-
PUPS	(8,888)	-	(8,888)	-
	<u>(8,888)</u>	<u>-</u>	<u>(8,888)</u>	<u>-</u>
Management Fees	2,013	38,370	(36,357)	-94.8%
Total				
Self Storage	339,872	360,054	(20,182)	-5.6%
PUPS	153,881	148,033	5,848	4.0%
Discontinued	2,013	38,370	(36,357)	-94.8%
	<u>495,766</u>	<u>546,457</u>	<u>(50,691)</u>	<u>-9.3%</u>

### Interest income

Interest income for the three months ended March 31, 2015 was \$5,762, compared to \$5,103 for 2014. Interest income was generated by the temporary investment of cash raised from equity issuances in the periods between raising the cash and investing it into operating properties or capital additions.

### Corporate selling, general and administrative (S, G & A) costs

S, G & A expenses for the three months ended March 31, 2015 were \$201,923 compared to \$234,039 for the previous fiscal year. As a percentage of storage related revenue, S, G & A costs were 18.4% in 2015 compared to 21.8% in 2014. Some of the largest drivers of these costs are salaries, management fees, and new facility acquisitions or PUPS start-ups which incur a number of professional fees that cannot be capitalized. In the first quarter of 2015, the Corporation incurred significant professional fees relating to the negotiations to acquire a number of self-storage and portable storage properties that were ultimately acquired in April 2015 (See "Subsequent Events" above).

The three largest S, G & A items in the three months ended March 31, 2015 were as follows:

- Management fees paid to Detteson Management Inc. of \$46,795 (March 31, 2014 - \$143,689). See discussion of "Related Party Transactions" below.
- Professional fees of \$74,566 (March 31, 2014 - \$31,391). Accruals and billings for audit and other financial work totaled \$7,500 in Q1 2015. Legal and appraisal work for related to the acquisition transaction (see "Subsequent Events" above) amounted to \$64,025. Legal work for general corporate matters made up the balance of the Q1 2015 professional fees.
- Salaries of \$35,260 (March 31, 2014 - \$45,092). This category is comprised of a Supervisor of Operations, an Accounting Technician and certain administrative support costs. No new staff has been added to this category in the past year.

### Summary of Quarterly Results (unaudited)

Period	Net Revenue	Net Income / (Loss)	Net Income / (Loss) per share	Fully diluted Net Income / (Loss) per share	Total Assets	Total Long Term Liabilities	Dividends
2015- Q1	\$1,104,594	(\$374,472)	(\$0.010)	(\$0.010)	\$27,910,360	\$18,483,161	-
<b>Total 2015</b>	<b>\$1,105,594</b>	<b>(\$374,472)</b>	<b>(\$0.010)</b>	<b>(\$0.010)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2014- Q4	\$1,254,646	(\$424,349)	(\$0.012)	(\$0.012)	\$28,604,192	\$18,879,519	-
2014- Q3	\$1,483,755	(\$159,355)	(\$0.004)	(\$0.004)	\$28,445,226	\$22,859,246	-
2014- Q2	\$1,404,725	(\$316,946)	(\$0.009)	(\$0.009)	\$28,753,424	\$22,905,741	-
2014- Q1	\$1,117,806	(\$331,226)	(\$0.009)	(\$0.009)	\$26,097,965	\$20,567,212	-
<b>Total 2014</b>	<b>\$5,260,932</b>	<b>(\$1,231,876)</b>	<b>(\$0.034)</b>	<b>(\$0.034)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>
2013- Q4	\$1,263,287	(\$120,230)	(\$0.004)	(\$0.004)	\$25,714,728	\$20,818,777	-
2013- Q3	\$1,425,081	(\$109,614)	(\$0.003)	(\$0.003)	\$25,921,487	\$20,803,719	-
2013- Q2	\$1,258,459	(\$287,862)	(\$0.009)	(\$0.009)	\$26,116,230	\$20,558,286	-
2013- Q1	\$ 949,332	(\$271,018)	(\$0.008)	(\$0.008)	\$26,503,400	\$20,985,405	-
<b>Total 2013</b>	<b>\$4,896,159</b>	<b>(\$788,724)</b>	<b>(\$0.024)</b>	<b>(\$0.024)</b>	<b>N/A</b>	<b>N/A</b>	<b>-</b>



## LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2015, the Corporation had \$154,726 of cash and short term deposits compared to \$454,468 at December 31, 2014. The Corporation's principal sources of liquidity are its ability to generate cash flow from operations, arranging new debt financing, and offering shares to the public. In February, 2014, the Corporation raised an additional \$1,000,000 through a non-brokered private placement of common shares.

The Corporation is not in default or arrears on any of its debt obligations. As at March 31, 2015, the Corporation had total mortgage debt outstanding of \$17,228,405 at interest rates ranging from 3.85% to 5.00% and maturities ranging from November 2015 to November 2017. The Corporation also had term debt totaling \$1,801,512 with interest rate at 3.85% and maturity of November, 2017.

In 2012, the Corporation negotiated a credit facility with a major financial institution. The facility consists of three segments:

1. Facility 1: authorized up to \$20,000,000 for the acquisition and / or refinancing of self-storage and PUPS portable storage facilities. As at March 31, 2015, the Corporation had assets with a total book value of \$16,879,421 (December 31, 2014 - \$16,995,965) pledged to this segment. As at March 31, 2015, the Corporation had drawn \$15,964,590 (December 31, 2014 - \$16,244,988) on this segment and, based on a percentage of the appraised value of the assets pledged to date, \$4,035,410 remains available to be drawn.
2. Facility 2: authorized up to \$2,000,000 for the acquisition of PUPS portable storage containers. As at March 31, 2015, the Corporation had drawn \$917,476 (December 31, 2014 - \$952,023) on this segment.
3. Facility 3: authorized up to \$1,000,000 for the acquisition of other capital assets used in connection with the Corporation's activities. As at March 31, 2015, the Corporation had drawn \$884,036 (December 31, 2014 - \$944,508) on this segment.

The interest rate on each of the segments above is bank prime plus 1.00% or Bankers' Acceptance rate plus 2.75%. Funding is secured by first mortgage charges on fixed and portable storage properties and assets. The Corporation must maintain certain financial ratios to comply with the facilities. These covenants include a fixed charge coverage ratio, a tangible net worth ratio, and a loan to value ratio. For purposes of the tangible net worth ratio, the lender treats all Preferred Shares outstanding as equity because obligations under the preferred shares are subordinated and postponed in favor of the lender. As of March 31, 2015, the Corporation is in compliance with all covenants.

In the fiscal year 2012, the Corporation completed the defeasance of a mortgage on the Trans Can property in Regina (the "Defeasance Obligation"). The result was a defeasance obligation (liability) of \$1,789,785 at December 31, 2012 being the present value of the remaining payments under the original mortgage at an effective interest rate of 1.09%. The payments will be fully funded by the principal and interest earnings of Short and Long Term Investments of \$1,764,247 in Government of Canada Bonds bearing interest rates ranging from 1.75% and 3.50% and maturities ranging from March 2013 to June 2016. Both the defeasance obligation and the Short and Long Term Investments are held within 1712066 Alberta Ltd, an entity whose financial statements are consolidated with those of StorageVault Canada Inc.

The following chart summarizes the Corporation's financial commitments for mortgage and long term debt (excluding the defeasance obligation noted above) principal and interest payments for the next five years:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015 (balance of year)	\$1,152,957	\$577,364	\$1,730,321
2016	\$1,538,867	\$714,534	\$2,253,401
2017	\$1,540,770	\$651,293	\$2,192,063
2018	\$1,448,028	\$589,536	\$2,037,564
2019	\$1,374,729	\$531,197	\$1,905,926

Because Working Capital includes the issued and outstanding preferred shares, Working Capital (being current assets less current liabilities) is negative \$5,914,093 at March 31, 2015 (December 31, 2014 – negative \$5,426,639). These figures include the current portion of long term debt, which will be paid over the course of the subsequent 12 months. Also included are the preferred shares. As at March 31, 2015, these shares may be subject to retraction at some time in 2015. They may also be converted to common shares at the option of the shareholders. Management has planned for this eventuality as outlined in the paragraph below. The preferred shares are subject to subordination agreements wherein any obligations arising under the preferred shares are subordinated and postponed to and in favor of the financial institution that provides the credit facilities noted above. Pursuant to the subordination agreements, the preferred shareholders shall not, without prior written consent, exercise any right or recourse with respect to the preferred shares, including any demand for payment or collection. Excluding the current portion of long term debt and the preferred shares from the calculation results in a figure that represents only short term working capital needs. This figure is a positive \$240,085 at March 31, 2015 (December 31, 2014 – positive \$698,832). In management's view, mini-storage and the portable storage business produce relatively predictable cash flows, subject to normal business risks (see "Risks and Uncertainties" below). These cash flows are expected to augment the short term working capital balances and generate sufficient cash to meet current obligations.

On March 16, 2015 the Corporation and its preferred shareholders amended the terms of the preferred shares whereby the preferred shares would be converted, redeemed or retracted depending upon the outcomes under the Purchase Agreement noted in "Subsequent Events" above. In the event that the Second Tranche of the Purchase Agreement closes and the preferred shareholder provides appropriate notice, the preferred shares will be converted to common shares immediately prior to the closing of the Second Tranche. Should the preferred shareholder not provide appropriate notice, all conversion rights will be extinguished and the Corporation will redeem all preferred shares on or before October 1, 2016. In the event that the Second Tranche does not close, the preferred shareholder shall have, at its option, until June 30, 2016 to provide further written notice to convert all preferred shares to common shares, with such conversion to be effective October 1, 2016. Should the preferred shareholder not provide such further written notice on or before June 30, 2016, all conversion rights will be extinguished on July 1, 2016 and the Corporation will redeem all preferred shares on October 1, 2016. In the event that the Second Tranche closes, any preferred shareholder may, at its option and with appropriate notice, retract all (but not less than all) preferred shares with such retraction to occur on the closing date of the Second Tranche. In the event that the Second Tranche does not close, any preferred shareholder may, at its option and with appropriate notice, retract all (but not less than all) preferred shares with such retraction to occur on the date that the Second Tranche is terminated, with all other previously provided retraction rights being extinguished.

Management believes that the Corporation has sufficient working capital to meet its future commitments. The Corporation may have capital requirements in excess of its currently available resources. In the event the Corporation's plans change, its assumptions change or prove inaccurate, or its capital resources in addition to projected cash flow, if any, prove to be insufficient to fund operations, the Corporation may be required to seek additional financing. There can be no assurance that the Corporation will have sufficient financing to meet its future capital requirements or that additional financing will be available on terms acceptable to the Corporation in the future.

### Funds from Operations (FFO)

FFO is a non-IFRS measure. It allows management and investors to evaluate the financial results of an entity without taking into consideration the impact of amortization which may vary between real estate investments based on when the assets were acquired. Also excluded are stock based compensation costs and future income tax expenses (recoveries), if any.

The FFO for the three months ended March 31, 2015 and 2014 were \$24,583 and (\$13,786), respectively. The Corporation continues to generate positive Funds from Operations, thereby validating the business model which includes matching proven cash flow positive self-storage properties with organically grown portable storage operations. The self-storage facilities bring long term, stable cash flow, while the portable storage diversifies product offering and provides long term growth opportunity.

A summary of FFO by fiscal quarter is as follows:

	2015 Fiscal Year ('000 omitted)		2014 Fiscal Year ('000 omitted)				
	Q1	Total	Q1	Q2	Q3	Q4	Total
Net Income/(Loss)	(374)	(374)	(331)	(317)	(159)	(425)	(1,232)
Add:							
Amortization	380	380	317	391	427	410	1,545
Stock based comp.	19	19	-	103	-	-	103
Deferred inc. tax	-	-	-	-	-	-	-
FFO	25	25	(14)	177	268	(15)	416

## Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation is not party to any industry contracts or arrangements other than the contractual arrangement noted in “Related Party Transactions” below.

The Corporation leases the land in Winnipeg, MB on which its Kenaston Self Storage buildings are situated. The lease does not contain any contingent rent clauses. It does not include any provisions for transfer of title, nor does the Corporation participate in the residual value of the land. Therefore, this lease is considered an operating lease as the risk and reward of ownership of the land remains with the landlord. The lease expires in 2027 with up to 20 years of renewals at the option of the Corporation after that time. The future minimum lease payments are as follows:

Less than one year	\$ 62,512
Between one and five years	250,307
More than five years	453,992

## RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2015, the Corporation paid total management fees of \$45,895 (March 31, 2014 - \$143,689) to Detteson Management Inc. (“Detteson”), a corporation controlled by Alan A. Simpson and Glenn E. Fradette, who are directors and officers of the Corporation. Pursuant to a management agreement, Detteson is entitled to a base management fee of \$168,000 per year commencing May 1, 2011, subject to an annual increase of 3% on May 1 of each subsequent year as well as an annual performance fee of 4% of Net Operating Income if the Corporation attains 85% or greater of its annual board-approved budgeted Net Operating Income for that fiscal year. The portion of management fees paid in the three months ended March 31, 2015, for performance fee relating to the prior fiscal year was \$nil (March 31, 2014 - \$99,131).

During the three months ended March 31, 2015, the Corporation reimbursed travel and related expenses of \$12,622 (March 31, 2014 - \$16,008) to Detteson. These expenses, which were reimbursed at cost, were undertaken exclusively for the benefit of the Corporation.

During the three months ended March 31, 2015, the Corporation paid loan guarantee fees of \$2,178 (March 31, 2014 - \$2,178) to Alan A. Simpson and loan guarantee fees of \$2,178 (March 31, 2014 - \$2,178) to Glenn E. Fradette, both of whom are directors and officers of the Corporation. As a condition of the assumption of the mortgage on T. C. Mini Storage Ltd., both Alan A. Simpson and Glenn E. Fradette were required to provide personal guarantees for the entire outstanding principal balance of the mortgage. The loan guarantee fees are compensation for the provision of these guarantees, and are paid on a monthly basis at the annual rate of 0.5% of the original mortgage principal, per person.

The Corporation holds a Master Franchise from Canadian PUPS Franchises Inc. (CPFI) which provides the Corporation with the exclusive Canadian franchise rights for the development and operation of PUPS portable storage franchises throughout Canada. CPFI is a corporation controlled by Alan A. Simpson and Glenn E. Fradette, who are directors and officers of the Corporation. The Corporation pays a continuing monthly royalty of 3.5% of the gross sales in relation to the Franchise Rights for PUPS and purchases storage containers and certain PUPS related equipment from CPFI. During the three months ended March 31, 2015, the Corporation paid \$17,174 (March 31, 2014 - \$23,163) for royalties and \$nil (March 31, 2014 - \$40,190) for storage containers and other equipment under the Master Franchise Agreement.

Included in accounts payable and accrued liabilities, relating to the previously noted transactions, at March 31, 2015 was \$6,132 (December 31, 2014 - \$61,262) payable to CPFPI and \$3,386 (December 31, 2014 - \$3,299) payable to Detteson.

## **FINANCIAL INSTRUMENTS**

Financial instruments are defined as contractual rights to receive or deliver cash or other financial assets. The fair values of the Corporation's Held to Maturity financial assets (cash and short term deposits, short term investments and long term investments), Loans and Receivables (accounts receivable) and Other Financial Liabilities (accounts payable and accrued liabilities) approximate their carrying amount and incur minimal fair market valuation risk because of short period to scheduled receipt or payment of cash.

The fair value of the Corporation's Other Financial Liabilities classified as long term debt obligations is estimated based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Corporation might pay or receive in actual market transactions. Long term debt is carried on the books of the Corporation at amortized cost using the effective interest method. There are no fair value adjustments booked to income or loss. This debt is used for financing acquisition and development of long term assets. It is subject to interest rate risk, as most long term debt is currently at floating interest rates. However, management is able to convert effectively convert to fixed rate debt using hedging strategies should interest rates show signs of increasing in the future.

Preferred shares are considered Financial Liabilities at Fair Value through Profit or Loss. As such, any changes in the fair value other than from the issuance or cancellation of such shares would be recognized as income or loss in the Consolidated Statements of Income / (Loss) and Comprehensive Income / (Loss). The preferred shares contain two components, being the debt component and an embedded derivative liability component arising from the Investor's right to convert. The Corporation has elected to treat these two components as one financial instrument measured at fair value through profit and loss. The preferred shares are therefore presented as a liability at fair value in the consolidated financial statements. As the preferred shares are entirely held by a party related to the Corporation, an option pricing model was not considered appropriate for valuing the preferred shares and conversion option. Rather, the transaction price was considered by management to be a more reliable estimate of fair value. Accordingly, no changes to fair value have been recognized in the Consolidated Statements of Income / (Loss) and Comprehensive Income / (Loss).

## OUTSTANDING SHARE DATA

A summary of the outstanding shares and convertible securities as at March 31, 2015 is as follows:

	Expiry Date	Exercise Price	Securities Outstanding	Common Shares on Exercise
<b><u>Common Shares:</u></b>				
Seed capital			5,000,000	
Initial public offering – November 5, 2007			5,000,000	
Private placement – October 31, 2008			18,391,304	
Agency fee – October 31, 2008			678,696	
Issued to vendor – Canadian PUPS acquisition			2,466,798	
Issued to vendor – Kenaston acquisition			2,173,913	
Cancelled under Normal Course Issuer Bid – 2011/12			(239,500)	
Cancelled under Normal Course Issuer Bid – 2012/13			(115,500)	
Private placement – February 25, 2014			<u>3,333,333</u>	
Outstanding Common Shares			<u>36,689,044</u>	
<b><u>Preferred Shares:</u></b>				
Series I- tranche 1	March 17, 2015	\$0.30	2,000,000	6,666,667
Series I- tranche 2	October 15, 2015	\$0.30	2,000,000	6,666,667
Stock Dividends		\$0.30	<u>498,144</u>	<u>1,660,480</u>
Outstanding Preferred Shares			<u>4,498,144</u>	14,993,814
<b><u>Options and Warrants:</u></b>				
Director's options	November 5, 2017	\$0.20	1,000,000	1,000,000
Director's options	May 6, 2019	\$0.23	2,200,000	2,200,000
Director's options	June 20, 2024	\$0.33	400,000	400,000
Employee's option	January 27, 2025	\$0.40	60,000	60,000
Warrants	February 25, 2018	\$0.37	2,833,334	2,833,334
Warrants	February 25, 2018	\$0.35	<u>499,999</u>	<u>249,999</u>
Outstanding options and warrants			<u>6,993,333</u>	6,743,333
				<u>21,737,147</u>

## **RISKS AND UNCERTAINTIES**

The following is a brief review of some of the potential risks and the potential impacts these risks and uncertainties may have on the operations of the Corporation:

### **Real Estate Industry**

Real estate investments are subject to varying degrees of risk depending on the nature of each property. Such investments are affected by general economic conditions, local real estate markets, supply and demand for rental space, competition from others with similar developments, the perceived “attractiveness” of a given property, and various other factors.

There is no certainty that financing will be available upon the maturity of any existing mortgage at terms that are as favorable as the expiring mortgage, or at all. If the Corporation is ever unable to refinance an existing indebtedness on favorable terms, the Corporation may need to dispose of one or more properties upon disadvantageous terms. Prevailing interest rates, limited availability of credit or other factors at the time of refinancing could increase interest expense and ultimately decrease the return to investors.

### **Economic Conditions**

The storage industry in Canada can be cyclical. Due to the climate, demand for self-storage is generally weaker in the winter months. Self-storage is less susceptible to changes in the local economy, as storage space is often needed during times of both growth and recession. However, downturns in a local economy could negatively affect self-storage rentals due to the decrease in consumer discretionary spending. A significant portion of self-storage tenants use self-storage during periods of moving from one residence to another, or when a residence is being renovated. In times of economic downturn, the level of activity in housing sales and housing renovation could decrease, thereby decreasing self-storage rental demand.

### **Liquidity Risk**

Liquidity risk is the risk that the Corporation will be unable to meet its financial obligations as they fall due. The Corporation manages liquidity risk through cash flow forecasting and regular monitoring of cash requirements including anticipated investing and financing activities. Typically the Corporation ensures that it has sufficient cash or liquid investments available to meet expected operation expenses for a period of 30 days, excluding the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. For the foreseeable future, the Corporation anticipates that cash flows from operations, working capital, and other sources of financing will be sufficient to meet its debt repayment obligations and will provide sufficient funding for anticipated capital expenditures.

### **Environmental Risks**

Environmental risk is inherent in the ownership of property. Various municipal, provincial and federal regulations can result in penalties or potential liability for remediation should hazardous materials enter the environment. The presence of hazardous substances could also impair the Corporation’s ability to sell the property, or it might expose the Corporation to civil law suits. To mitigate such risk, the Corporation will obtain a recent Phase I environmental report for all material acquisitions. It also prohibits the storage of hazardous substances as a condition of the rental contract signed by tenants.

## **Credit Risk**

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their financial obligations to the Corporation. The risk of incurring bad debts often arises if self-storage tenants relocate and cannot be found to enforce payment, or if self-storage tenants abandon their possessions. The extent of bad debts can be mitigated by quickly following up on any unpaid amounts shortly after the due date, enforcing late fees, denying access to any tenants with delinquent accounts, and ultimately seizing the possessions of the tenant. Additionally the Corporation typically rents to numerous tenants, each of which constitutes significantly less than 5% of the Corporation's monthly revenue. This diversification in the tenant base reduces credit risk from any given tenant.

## **Competition**

The Corporation competes with other individuals, corporations and institutions which currently own, or are anticipating owning a similar property in a given region. Competitive forces could have a negative effect on rental rates or certain costs such as advertising.

Competition also exists when the Corporation attempts to grow through acquisitions of storage facilities. Some investors may have greater financial resources than those of the Corporation. An increase in the availability of investment funds in the general market, and a subsequent increase in demand for self-storage facilities would have a tendency to increase the price for future acquisitions of self-storage facilities and reduce the yields thereon. In addition, the Corporation may require additional financing to complete future real estate acquisitions which may not be available on terms acceptable to the Corporation.

## **CHANGES IN ACCOUNTING POLICIES**

The Corporation adopted amendments to IFRS 8 and IAS 24 on January 1, 2015. There was no material impact to the Corporation's interim consolidated financial statements as a result of the adoption of those standards. The IASB or the International Financial Reporting Interpretations Committee have issued a number of new or revised standards or interpretations that will become effective for future periods and have a potential implication for the Corporation. There have been no pronouncements in addition to those disclosed in the December 31, 2014 annual audited financial statements.